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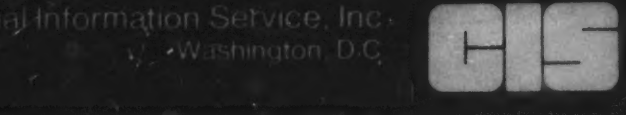

LOCAL ECONOMIC DEVELOPMENT EFFORTS IN THE YOUNGSTOWN-WARREN AREA

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND ECONOMIC GROWTH

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

NINETY-SEVENTH CONGRESS

FIRST SESSION

DECEMBER 14, 1981

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LOCAL ECONOMIC DEVELOPMENT EFFORTS IN THE YOUNGSTOWN-WARREN AREA

MONDAY, DECEMBER 14, 1981

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON TRADE, PRODUCTIVITY,
AND ECONOMIC GROWTH
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:06 a.m., in the council chambers, city hall, Youngstown, Ohio, Hon. Clarence J. Brown (vice chairman of the subcommittee) presiding.

Present: Representative Brown.

Also present: Mark R. Policinski and Robert Premus, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE BROWN, VICE CHAIRMAN

Representative BROWN. The subcommittee will please come to order. I'm Congressman Clarence Brown of Ohio, who will serve as the Chair for the hearing today.

I would first like to announce the regrets of Congressman Ralph Regula of Canton, who had intended to be here this morning, but is in Washington, I am advised, with problems that relate to a continuing resolution that seems to follow these hearings. We had a hearing in Toledo a couple of weeks ago, and we were obliged to return to Washington promptly that afternoon in order to try to vote on a continuing resolution at that time, and we now have the same continuing resolution up again.

Representing the local Congressman, Lyle Williams, is Anthony Centifani. Representing Congressman William Stanton, a neighboring Congressman to the north, is Tony Bernard, who works out of his office in Trumbell County.

Participating in the hearing from the Joint Economic Committee will be Mr. Robert Premus, on my far right, your left, a former economics professor from Wright State University here in Ohio, who is on the staff of the Joint Economic Committee as a staff economist; and Mr. Mark Policinski, who is also on the staff of the Joint Economic Committee as a staff economist.

During the past 10 years the American economy has been very troubled. In the course of that decade, our sluggish economic growth has caused America to decline rapidly relative to other national economies. Today, we find ourselves in a recession that has been going on for over 2 years—never mind the technical definitions. Many Amer-

icans are suffering the pinch between higher and higher and higher prices and less and less job security. Americans everywhere are looking for a meaningful way to solve that problem.

It is, of course, especially disturbing that some areas of the country have been harmed much more than the country as a whole. The Youngstown-Warren community and northeastern Ohio is a part of the whole Northeastern United States which has particularly borne the brunt of the economic decline in this country over the last few years.

Over a short period of time, the Youngstown-Warren area has been struck by a series of plant closings that left thousands unemployed. The nearby communities of Cleveland and Akron have likewise suffered from a decline in their basic industries, particularly steel, automobiles, and rubber. In fact, what happened in northeastern Ohio is a sad symbol of our total national decline. There are other parts of Ohio, communities that have suffered more than Youngstown, namely, Dayton, Ohio, my own area, which has had a total job loss, but it has been a gradual job loss. Perhaps Youngstown has had the most dramatic problem of any city in Ohio.

In response to our national economic problems, Congress has enacted a series of tax and expenditure reductions with the purpose of restoring general prosperity to the American economy. But these solutions are aimed at the longrun general economic restoration of the Nation as a whole, so localities cannot sit idle waiting for Federal deliverance. This is especially true of communities that have had their industrial bases severely disrupted.

And it is important to note that the Joint Economic Committee is not holding these hearings to rehash what has gone wrong with the Youngstown-Warren area economy. We are holding these hearings to learn what this area has accomplished and can accomplish in revitalizing its own economy.

The actions of localities to develop their economies is particularly critical now because the traditional solution of throwing more Federal dollars at local problems is no longer desirable and is currently no longer in the works.

How citizens and communities respond to economic setbacks without the wasteful dole of Federal aid may well be more important to our Nation and our security than any other single economic issue in the next 10 years. It is for this reason that—though the Joint Economic Committee, for many years, has studied the development of local and State economies—our work on this issue has never been more important than it is now.

The Joint Economic Committee has been conducting hearings in cities across the country; Indianapolis, Los Angeles, Milwaukee, New York, and Toledo so far in 1981. Others are planned for the near future in other parts of the country to gain a better understanding of development strategies that have been used in these various areas. Of particular interest is how localities use their scientific and technological resources to create new industries and modernize their existing plants. Modern technology offers the best hope to older industrial communities for diversifying their local economies of these communities, and, if there is one thing these hearings have taught us up to this point, it is that diversification prevents decay.

In this regard we like to know what is being done by localities to find new types of jobs for workers. What is being done to expand investment and venture capital in a region to encourage the location of new firms and the expansion of old ones? What local efforts have been made to encourage entrepreneurs to start production? Is an area's scientific and university community being effectively utilized to create high growth/high technology industries? What changes have businesses gone through that have led to modernized production methods, thereby, making an area's businesses more competitive? What are the financial institutions doing in the community to be of assistance?

Answers to these questions are not trivial. They have national significance. What is successful in Youngstown can be applied to other regions of the country and other States suffering economic decline, and to other communities. Community-based efforts to create new industries and modernize existing ones will play a significant role in reshaping the national economy in the 1980's. If it doesn't play that role, perhaps the future of the 1980's won't be as bright as it should be.

And if our communities are successful in their efforts, we will find that meaningful light at the end of the tunnel that we've all been looking for. We will find that economic recovery is simply a reflection of individual initiatives and ideas, our own dedication and our determination.

We will know that our destiny is in our hands and that with vigilance it will stay there, where it has always been perhaps the safest and most productive.

I'm delighted to welcome this morning—unfortunately not the mayor, who I guess, has been subpenaed. One has few choices when that occurs, but we have Walter Swierz, who is the secretary to the mayor, who will extend his welcome. Mr. Swierz.

OPENING STATEMENT OF WALTER SWIERZ, ON BEHALF OF HON. GEORGE VUKOVICH, MAYOR, YOUNGSTOWN, OHIO

Mr. SWIERZ. Congressman, on behalf of Mayor Vukovich, we welcome the Joint Economic Committee here this morning to conduct this field hearing in Youngstown, Ohio.

In the past there has been similar hearings held in Youngstown, and the problems of Youngstown have been expounded on several occasions to the regional committee hearings. Our problems are still existing. Perhaps this particular hearing will bring forth some solutions to the problems. As I said, several years ago there was a hearing held, and all of the problems were brought before the committee, and at that particular time the committee was going to do some research and see if solutions could be found.

To this date the solutions of the steel mill closings have not been found. We have slowly attracted some new industry, but the job is far from finished.

So today we welcome you here, we hope the people that are going to participate will be able to give you enough information so that solutions will be forthcoming in the near future.

So on behalf of Mayor Vukovich, welcome to the city of Youngstown.

Representative BROWN. Thank you, Mr. Swierz. It's our hope that the solutions that Youngstown is finding for itself will be solutions that can be applicable to other parts of the country, and as I said in my opening statement, perhaps the problems of Youngstown relying on Federal congressional hearings to solve its problems haven't been as productive as they could have been, and they won't be productive in the future if that's where the reliance is placed.

We'll hope that we can learn something from Youngstown today. That's the purpose of these hearings rather than to bring some instant solution to the problems Youngstown has.

I appreciate your welcome and will look forward to Mayor Vukovich, if he has the opportunity of dropping by as the hearing progresses. We will be finished around noon. Thank you very much.

The first panel for our hearings today are Mr. W. L. Weeks, the district manager of Republic Steel; Mr. David Tod, the chairman of the Board of Torent, Inc.; and Mr. Daniel B. Roth, the vice chairman of the Board of Torent, Inc.

We'll be happy to have those gentlemen come to the witness stand.

I think unless there are no objections or preferences of the panel, we will proceed with the testimony in the order in which you are listed on the witness list, that is Mr. Weeks, Mr. Tod, and Mr. Roth.

Before we proceed with those who are on the panel, I want to accept into the record, statements and material from the Mahoning Valley Economic Development Corp., Donald L. French, executive director, with appropriate statistical charts; a statement from the Youngstown Area Chamber of Commerce, Mr. Weston O. Johnstone, president of the Youngstown Chamber of Commerce, and from Mr. Kenneth M. Lloyd, an attorney in the community, with comments on some of the history and interest that's been expressed in the community in the linkage of the Ohio River and the Lake Erie waterway system.

[The statements referred to follow:]

STATEMENT OF DONALD L. FRENCH, EXECUTIVE DIRECTOR, MAHONING VALLEY ECONOMIC DEVELOPMENT CORP.

ECONOMIC STATUS OF THE MAHONING VALLEY

Since the closing of several Mahoning Valley steel mills which eliminated more than 15,000 steel and related jobs, several positive reports have appeared which brighten the future. Included among these positive announcements have been the realization of the Commuter Aircraft Corporation, which plans to build the first major new aircraft plant in the U.S. in the last 20 years. It is estimated that CAC will employ in excess of 1400 persons at capacity.

The Republic Steel Corporation has firmly re-established its position as the Valley's major steel producer through a $250 million multi-year expansion program.

Recent innovations at the Copperweld Steel Company have placed this specialty steel corporation at the forefront of the industry.

The announcement by Jones & Laughlin to construct a $160 million coke battery at the Campbell Works strengthens this company's future in the Valley.

The decision by the General Motors Corporation to construct J cars at the Lordstown, Ohio facility will continue GM's strong position in the Valley.

The most recent announcement that Commercial Shearing acquired two British companies will further solidify this local corporation's well being.

In addition to these announcements, several federal programs have been initiated to assist in creating permanent head-of-household jobs in private industry. The Mahoning Valley Economic Development Corporation (MVEDC) stands at the forefront of this effort. MVEDC is a non profit corporation composed of representatives of business, labor, political sub divisions and the general public from both Trumbull and Mahoning Counties. The main goal of the corporation is to increase permanent employment in the private business sector. The basis of MVEDC's efforts is an agreement with the Economic Development Administration, U.S. Department of Commerce, known as the CEDS program and officially designated in March, 1979. The creation of the Revolving Loan Fund as part of the CEDS agreement has, to date, been able to identify over 1100 jobs both added and protected to private industry.

These jobs were made possible by a public-private partnership lending program to 21 different companies at a total loan amount of $2,674,334. This averaged $2,405 per job protected (see Attachment A).

The CEDS agreement states that $3 million would be available for the Revolving Loan Fund; however, only $2.5 million has been delivered. The CEDS agreement also states that $12 to $15 million would be available to finance priority public work projects in the Valley. To date only $3.3 million has been appropriated for these projects.

Many requests continue to be received for Federal Grants for public works projects, even though no applications are being accepted.

Included in the CEDS document is assistance by EDA for Federal loan guarantees. To date Commuter Aircraft Corporation, Republic Hose and Youngstown Steel Company have received this type of financing assistance. Several pending approvals are anxiously waiting, while new inquiries are being discouraged.

Another program, "UDAG" that was successfully used for Commuter Aircraft Corporation and Republic Hose is being threatened to be removed as an economic development tool.

SBA direct loans have been nearly eliminated after being used for years to assist small business and industry. Also SBA loan guarantees are very difficult to obtain. These programs, the tools used for economic recovery in the Valley, are disappearing.

A recent survey of the Valley's manufacturers conducted by MVEDC (see Attachment B) indicates that a demand for expansion exists as 59% of the companies surveyed have expansion plans within the next five years. High interest rates are most often mentioned as the major hindrance to expansion efforts. Only 11% of the companies surveyed have utilized government assisted financing, however, 62% would consider this type of financing if it were available. These figures indicate that the process of economic recovery is far from complete -- especially with unemployment rates projected by the Ohio Bureau of Employment Services to be

15% in the coming months. Coupled with this information is the fact that over 80% of all jobs created in a community comes from expansions of existing local industries employing less than 100 people.

One important factor revealed by this survey is that a new era of labor-management relations has come to the Valley. Of the companies surveyed 85% have experienced either good or excellent labor relations. To further prove this point the following examples are set forth. General Motors Corporation decided to build the "J" car at its Lordstown facility. One of the major reasons for this decision was the good labor-management relations. Jones and Laughlin decided to rebuild a major coke oven project in Campbell. A major reason in this decision was an agreement reached by management and labor. Falcon Foundry also has experienced a very good labor-management relationship. This trend shows that labor and management are working together to solve problems and continue progress.

The current large backlog of business inquiries and loan applications at MVEDC further proves that the demand is far greater than available funding resources. In order to help fill this void, MVEDC has recently been certified as a Local Development Company under the SBA-503 program and is currently processing loans for local companies. However, the need for the continued assistances from EDA is very real and to loose this support will hinder the economic recovery of the Mahoning Valley. We, therefore, urge this Congressional Committee to favorably consider fulfilling the CEDS agreement with the Mahoning Valley by supporting and continuing the EDA.

This request comes as most of the tools used for economic development have been either reduced or dismantled. These are the very tools that have provided jobs to the Mahoning Valley. This is expecially true of EDA.

While the Steel, Auto and Building Industries have suffered greatly nationwide, they have equally or more greatly affected the Mahoning Valley.

Since the Mahoning Valley was designated as one of only two CEDS areas in the State of Ohio because of distressed conditions, it is the contention of MVEDC that a special and unique condition exists in the Valley and that special considerations and exceptions to rules should be made to answer these needs. MVEDC will continue to be at the forefront of the economic recovery of the Valley and the honoring of the CEDS agreement will keep that recovery on course.

MVEDC LOAN FUND COMMITTEE - LOANS CLOSED

AS OF DECEMBER 16, 1981

EXHIBIT A

LOANS GRANTED	TYPE PROJECT	AMOUNT OF LOAN	FUNDING SOURCE	COUNTY PROJECT LOCATED IN	JOBS RETAINED ON CLOSING	NEW JOBS PROPOSED	CLOSING DATE	TODAY'S RETAINED JOBS	TODAY's NEW JOBS
1. Superior Steel	Expansion/Retention	$150,000	F	Mahoning	26	6	12/21/79	22	0
2. Republic Hose	Expansion	$150,000	F	Mahoning	131	21	02/20/80	112	0
3. Youngstown Steel	New Venture	$350,000	F	Mahoning	0	30	02/14/80	0	28
4. Ramex Transportation (1)	Expansion (see #9,10)	$ 20,000	F	Mahoning	See #10 below		03/28/80	0	0
5. Preferred Specialty	Expansion	$ 35,000	F	Mahonig	5	3	05/01/80	3	0
6. Duca ReManufacturing	Expansion	$ 27,000	F	Mahoning	10	5	05/12/80	10	5
7. Eastwood Manufacturing	Expansion	$260,000	F	Trumbull	85	60	08/24/81*	85	117
8. Fireline Inc (1)	Expansion (see also #20)	$ 30,000	F	Mahoning	See #20 below		06/27/80	0	0
9. Ramex Transportation (2)	Expansion (see #s 4,10)	$ 19,000	F	Mahoning	See #10 below		10/01/80	0	0
10. Ramex Transportation (3)	Retention (see#s 4,9)	$ 33,334	F	Mahoning	8	6	10/31/80	8	10
11. Valley Foods	Retention/Expansion	$ 75,000	S	Mahoning	28	15	10/21/80	28	1
12. Cavanaugh Co	Retention	$100,000	F	Mahoning	28	7	11/14/80	28	1
13. Transworld Industries	Expansion	$300,000	F	Trumbull	130	0	11/14/80	30	0
14. Dyna Mach (1)	Retention/Exp (see also 26)	$ 60,000	S	Trumbull	10	10	12/05/80	10	2
15. McDonald Welding	Retention/Expansion	$150,000	F	Trumbull	25	66	02/07/81	25	75
16. Owens-Ohio Corp (1)	Expansion (see also #22)	$150,000	F	Mahoning	See #22 below		03/31/81	0	0
17. Globex Corporation	New Venture	$ 75,000	F	Mahoning	0	6	04/02/81	0	5
18. Venetta Inc	Retention/Expansion	$100,000	F	Trumbull	35	15	04/01/81	35	7
19. Faull Tool & Die	Expansion	$ 75,000	F	Trumbull	15	6	04/13/81	15	0
20. Fireline Inc (2)	Expansion (see also #8)	$ 25,000	F	Mahoning	51	5	03/31/81	43	0
21. King Tool & Die	Expansion	$ 75,000	F	Mahoning	12	8	04/17/81	12	1
22. Owens-Ohio Corp (2)	Expansion (see also #16)	$ 50,000	S	Mahoning	35	28	09/21/81	35	3
23. Creative Enterprises	Retention	$ 30,000	S	Mahoning	4	1	09/22/81	3	0
24. West & Barker Inc.	Expansion	$ 35,000	S	Mahoning	17	18	11/25/81	17	0
25.	New Venture	$150,000	F	Mahoning	0	50	09/02/81**	0	3
26. Dyna-mach (see #2)	Expansion (see also #14)	$ 50,000	F	Trumbull	14	2	11/25/81	14	0
27. Hutch Mfg.	Expansion	$100,000	F	Mahoning	36	24	11/25/81	36	0
		$ 2,674,334			705	407		571	258

$ 2,674,334 ÷ 1112 = $2,405 / job protected
Average loan amount: $99,049.40
% Funds loaned: 37% in Trumbull County
63% in Mahoning County

829 jobs protected so far this program
283 jobs projected for next 3 months
1112 total

*Renewal of two previous loans

**Approved but not yet closed

Sources of funding: F=federal, S=state

Please note that the total of funds loaned does not include the $500,000 additional funding authorized to MVEDC by the EDA on October 19, 1981.

EXHIBIT B

A SUMMARY OF CONTACTS
MADE WITH
MAHONING VALLEY COMPANIES
BY THE
MAHONING VALLEY ECONOMIC DEVELOPMENT CORPORATION
IN COOPERATION WITH

Cortland Chamber of Commerce

Lordstown Chamber of Commerce

Niles Area Chamber of Commerce

Youngstown Area Chamber of Commerce

August, 1981

INTRODUCTION

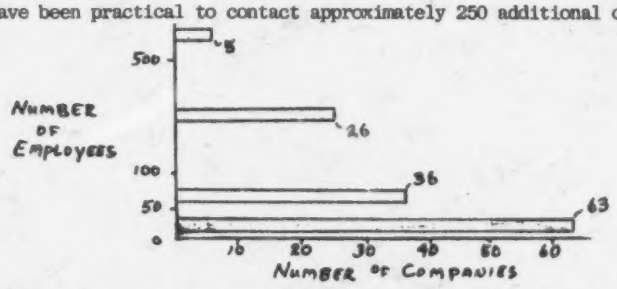
To improve the effectiveness of the lines of communication between community leadership in the Mahoning Valley and the industries located here, the Board of Trustees of the Mahoning Valley Economic Development Corporation authorized a survey to be made of all firms in Mahoning and Trumbull Counties listed in the 1981 Ohio Directory of Manufacturers who employ 25 or more.

Interviewers from various local chambers of commerce here in the Valley were assigned 244 calls in both counties. While questionnaires are still being received here at the MVEDC office, the results in the following summary are based on 53% (130) survey responses.

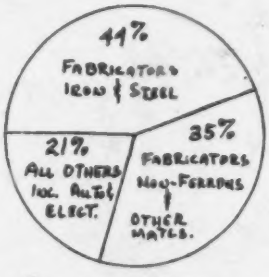
PROFILE OF FIRMS INTERVIEWED

Attempts were made to contact all manufacturers that employ 25 or more according to their listing in the 1981 Director of Manufacturers. In a few cases contact was not made and in some instances, information was refused. The following profile of the responding companies indicates an excellent cross section of industry in the Mahoning Valley.

Forty-eight percent (63) of the firms responding have less than 50 employees. 28% (36) have between 50 and 100. 20% (26) employ from 100 to 500. 4% (5) have over 500. It should be noted that no attempt was made to include companies in the Valley who employ less than 25 since it would not have been practical to contact approximately 250 additional companies.



Approximately 44% (57) of the firms are fabricators of steel or iron. Another 35% (46) are fabricators in wood, plastic, paper, rubber, textiles and non-ferrous metals. The other 21% (27) are composed of those involved in material handling equipment, builders, suppliers, refractories, electrical equipment, food suppliers, and automotive.

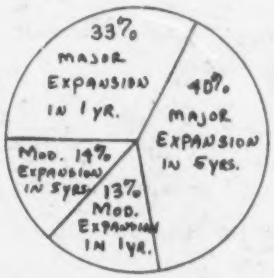


PROFILE OF FIRMS

In regard to the markets served by firms here in the Valley, 58% (76) said that they serve a national market. 38% (51) serve a regional market, which is interpreted as one within a radius of 100 miles. 12% (15) reported that they also served parts of the international market. In many cases, firms serve more than one of these categories and in a few cases, all three.

FUTURE PLANS

Of the firms contacted in the survey, 59% (77) acknowledged that they had plans for expansion within the next five years. 33% (25) of those acknowledged major expansion plans (an increase in capacity of 10% or more) within a year. Another 40% (31) plan major expansions over the longer term. A conservative estimate of the resulting number of new job opportunities is 1,755. If the firms responding are representative of the over 600 manufacturing firms in the Mahoning Valley, we can project that approximately 4,848 job opportunities will be created within the next five (5) years by firms who are already located here.



PLANNED EXPANSIONS

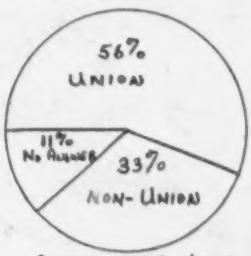
In responding to the questions about factors influencing the decision to expand, the vast majority said that expanding markets was the most important factor. Fifteen said that the Mahoning Valley location was a good one. Four said as long as they were able to get the skilled labor required they would stay in business here.

Only 14 responded to the question regarding problems anticipated in the planned expansion. Six plan to seek help in financing and two others thought that finding additional skilled labor would be a problem. Two other problems anticipatd were continued poor airline service and difficulty in getting rail cars when required. Still others anticipated complaints from neighbors, difficulty in attracting technical people to the area to live and problems in getting a zoning ordinance.

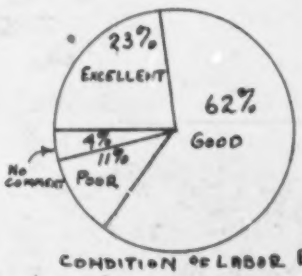
LABOR RELATIONS

In response to the question regarding whether or not their employees were represented by a union 56% (73) replied yes, while 33% (43) replied no. The others 11% (14) gave no answer.

Sixty-two percent (45) of those firms with unions reported that their relationship with the union leadership was good. 23% (17) additional described their relationship as excellent. Eleven percent (8) reported that they were having a very difficult time.



COMPANIES UNION REPRESENTATION



CONDITION OF LABOR RELATIONS IN COMPANIES WITH UNIONS

A majority of the companies who responded to the question regarding skills most difficult or costly to obtain, reported having no trouble at all obtaining skills required. There were 34 in that category. Others were general in their description of skills, describing their needs as hard workers, sales people, maintenance and production management. One even used the category "skilled worker" was one he had difficulty finding.

Of those who were more specific, metal working was the largest category. Tool makers, diemakers and machinists appear to be the most in demand. Twelve companies each reported trouble obtaining these skills. Two companies each appear to have difficulty finding welders and boring mill operators, while others reported difficulty finding machine adjusters, large machine operators and sheet metal workers.

The next really specific categroy in demand is that which requires an electrical background. Electrical engineers, electricians and particularly electricians with computer training as well as wiremen are apparently hard to find.

More specific skills were reported in short supply as firms listed, printing press operators, pipe fitters, moulders, sewers, driver salesmen and artists. Two firms are always looking for wood workers and cabinet makers.

GOVERNMENT

Response to the question about elected or appointed officials cooperating with the business community was evenly divided. 43% (56) firms said that cooperation was good. The balance either said no or had no opinion. A sub- stantial number do not appear to be interested in contact with public officials and prefer to keep it to a minimum.

Criticism of the activities of public officials ranged from very general to very specific. Compliments for those same officials were reported in just the same number. The MVEDC staff will follow up on those comments where it is determined it may be of help.

FINANCING

A substantial majority of the firms located here in the Mahoning Valley have never used federal or state financing programs in the conduct of their business.

Out of more than 100 who responded to the question about financing, only 11% (11) said they had had experience with one or more of them.

The most popular program now in use is that of industrial revenue bonds. SBA loans or guarantees were a close second. Others included programs of the Economic Development Administration and Ohio's Development Finance Commission.

In response to the questions about whether or not they would consider using a state or federal financing program in the future only 26% (26) said they would not. A number did not answer the question at all, but 62% (62) said they would consider some kind of a government financing program for their next project if it seemed to fit in with their plans and they were able to qualify for it.

ENERGY

In the category relating to energy, almost all companies interviewed said that electric power was their most critical form. Natural gas was a close second. Only four firms said that an oil supply was critical to their future operations.

Of the 130 responses to the question "would a lack of energy be a deterrent to future expansions?" 68% (89) said yes, 12% (15) said no and 20% (26) gave no answer at all.

ENVIRONMENTAL REGULATIONS

Most of the companies contacted are not operating under and EPA permit for either air or water. 77% (100) companies said no or gave no answer. 15% (19) others are operating under an air permit and 14% (18) more have a water permit. ⁵ of these, of course, have both.

Cost of compliance for those with permits ranges from $1.2 million for larger coporations down to $1,500 in the smallest firm. Cost of annual maintenance seems to average about ten percent (10%) of the original capital outlay. In some firms, where the headquarters is located outside of the Mahoning Valley, there was no information available on compliance costs.

On the disposal of solid waste, 52% (68) reported that they used a private contract and 14% (18) others said they used a private landfill. Only five said they were disposed of their solid waste on site. Significantly, there were 10% (13) who reported that they were recycling their waste by selling to others who use it as a raw material in further manufacturing.

TRANSPORTATION

Almost all of the firms contacted use trailer trucking in the operation of their business. In addition, 25% (33) use rail and about the same percentage use vans or small trucks as well as air freight. Fifty percent (65) of the firms use United Parcel Service or Parcel Post.

In response to a question asking whether or not the firm's present location keeps them from using a more economical form of transportation, 83% (108) said no. Eight others said yes and further indicated it to be either rail, which was not available at their present site, or barge which, of course, is not available at any site here in the Mahoning Valley.

With regard to problems related to shipping from the firm's present location, 82% (107) said they had none. Nine said they had problems of one kind or another. The most common one mentioned was lack of service and that was to several of the smaller communities here in the Valley such as Lowellville, Newton Falls, Levittsburg and Sebring. One complained about slow mail service and another about a shortage of box cars when he needed them. High freight rates was mentioned once as well.

FUTURE GOALS & PROGRAMS

What type of industries would benefit your operation in the Valley? The largest categroy, 37% (48) indicated a general increase in any type of industry would be beneficial to their company.

Fifteen percent (19) responses indicated that steel making operations would be most desirable. Since service industries and users of steel are still numerous in the Valley, the demand for steelmaking facilities still exist in the market place.

Seven percent (9) responses asked for metal working or fabricators of steel. This included plating operations and users of flat rolled sheets.

Five percent (7) responses asked for machine companies, tool and die shops, and grinding facilities.

Five percent (6) indicated a desire for glass manufacturing.

Four percent (5) requested chemical and paint manufacturing, five responses indicated aircraft and aerospace.

Three percent (4) responses indicated automotive, four responses - plastics or plastic manufacturing, four responses indicated aluminum extrusions and aluminum billet manufacturing.

Two percent (3) responses were for the building industry.

Twenty-three percent (30) had no answer to this question.

In summary, the development of diverse industry in the Valley is a desire of the manufacturers with the specific example that steelmaking facilities are desired in the Valley.

With respect to the question "what products and services are you buying locally?" 25% (33) of the respondents reported that they buy all material and services that are available locally. Fifteen percent (20) buy steel locally, 40% (52) buy many materials locally. Tooling and processing of steel is also purchased locally by 9% (12) of the companies. Five percent (6) responded

little or none and 12% (15) did not answer. From the individual responses, it becomes evident that the majority of the companies purchase a major portion of manufacturing, operational and maintenance materials locally. The most notable being steel.

VALLEY IMPROVEMENT

In response to the question about what can be done to improve conditions of the individual company here in the Mahoning Valley, over 50% either said nothing or offered no suggestion at all.

Of those who answered the question, 26% (20) suggested continued emphasis on economic development and the attraction of new industry. There were 10% (13) who suggested greater emphasis on worker productivity and better cooperation on the part of organized labor. Various suggestions having to do with the problems of financing expansion projects were offered by 8% (11) and 3% (4) others were concerned about taxes.

Other suggestions were offered to improve business conditions as they relate to utility rates and service, EPA standards and employee training. One suggestion that a community organization such as local chambers of commerce and MVEDC should work toward the formation of a metropolitan government for the two-county area.

COMMUNITY ORGANIZATIONS

Interest in the programs of local community organizations such as chambers of commerce and Mahoning Valley Economic Development Corporation was somewhat varied. A significant majority 55% (72) of the firms contacted said they were familiar with the programs of their local chambers, but many said that they had little time to participate. Most of those who were not familiar with the various programs, requested followup information be sent.

CONCLUSIONS

In general the survey indicates that industry in the Mahoning Valley is succeeding in initiating the redevelopment necessary for the Valley's economic recovery. While individual concerns were voiced, the general attitude exists that the Mahoning Valley is a desirable location for manufacturing and the majority have plans to remain and expand their operations in the Valley.

Almost all of the firms contacted thought that the program of personal calls was a good one and welcomed an opportunity to see the results. With few exceptions, the interviewers were urged to continue the program on a regular basis so that closer contact can be maintained between area industry and the community leadership.

Statement of Weston O. Johnstone, President, Youngstown Area Chamber of Commerce

My name is Weston O. Johnstone, President of the Youngstown Area Chamber of Commerce, which has been actively involved in economic development efforts in the Mahoning Valley since the Chamber was formed in 1905. This involvement has taken many forms over the years, and has become more sophisticated since 1972.

A few brief examples include arranging for and funding of a campaign to improve the area's image nationally, conducting industry retention surveys, and preparing, funding and executing a major mailing to about 500 Japanese industrialists who had exhibited some interest in establishing a facility in the United States. A sample of this mailing is provided to the Committee, showing the items that were translated and printed in Japanese, along with the English version.

These examples are in addition to the usual - or unusual when comparing with many other Chambers of Commerce. Such things as conducting, compiling and publishing an annual "Wage & Benefits" Survey, preparing quarterly "Cost of Living" figures which permit detailed comparisons with over 230 other communities throughout the country, maintaining and publishing extensive statistical data on the area, responding to numerous business inquiries, etc., etc.

Since the formation of the Mahoning Valley Economic Development Corporation, Mr. Laird Eckman, who had been the Director of the Chamber's Regional Growth Division (our economic development arm), went with the MVEDC as its Deputy Director. The Chamber has cooperated completely with MVEDC, including providing over $90,000 in private sector funding. We have extended this extensive cooperation to prevent duplication of effort, which would result in the wasting of both volunteer and tax dollars.

We appreciate the opportunity of presenting these comments.

STATEMENT OF KENNETH M. LLOYD, ATTORNEY, YOUNGSTOWN, OHIO

Mr. Chairman, Members of the Congressional Joint Economic Committee, Ladies and Gentlemen:

I appreciate this opportunity to appear at this public hearing to make a very brief oral statement and to submit certain written material for inclusion in the committee's record of this hearing.

My name is Kenneth M. Lloyd. I am a lawyer. My office is located at 801 Union National Bank Building, Youngstown, Ohio 44503. The telephone number is Area 216/746-8711.

I worked for more than forty years to represent Mahoning Valley employers in their relationships with governments and unions. It is from this background of involvement that I appear here today in the hope that I can make a practical suggestion to your committee which will actually help the Pittsburgh-Youngstown-Cleveland industrial area to again become economically healthy. I am not asking for a federal handout or a pork barrell project. I am only asking that your committee help us to create an INTERSTATE COMPACT in accordance with the provisions of the Constitution of the United States of America.

Legislation has been introduced in Ohio and Pennsylvania to create the Pittsburgh-Cleveland Waterway Authority. After Ohio and Pennsylvania enact this legislation, the Congress of the United States - you gentlemen - will be asked to approve this Interstate Compact. Congressional approval has been given to interstate compacts on many occasions and there is no reason to believe approval would be withheld in this instance.

The Pittsburgh-Cleveland Waterway Authority would have limited governmental powers. It would not have the power to tax, but it would have the authority to charge fees or tolls for the use of its facilities to retire the cost of providing the facilities and - after the cost has been paid - the use of the facilities would become free to the public.

The financial arrangements are to be the same as those of the Ohio Turnpike. The Ohio Legislature created the Ohio Turnpike Commission. Revenue bonds were sold to the public and today they have been virtually paid off via tolls or fees.

After the Ohio Turnpike was built and financed, the federal government decided to build the Interstate Highway System - 32,000 miles of limited access high speed highways at an estimated cost of $32 billion. To pay for the Interstate System, Congress levied a gasoline tax and a rubber tax on tires. Everyone pays the Interstate Highway taxes. Therefore, if you drive your car on the Ohio Turnpike you pay two taxes - gasoline and rubber - to the federal government and a toll or fee to the Ohio Turnpike Commission. The system works fine because no one is forced to use the Ohio Turnpike.

The Pittsburgh-Cleveland Waterway would work the same as the Ohio Turnpike works today:

The federal government has a tow boat fuel tax of 4¢ per gallon (to be raised to 10¢ per gallon) to be charged on the Pittsburgh-Cleveland Waterway. In addition, the interstate authority will levy a toll keyed to tons of material hauled and also, in addition, a fee will be charged for the pumped storage electric generating project located on the north end of the Grand River Reservoir.

The ability to market the non-taxable Revenue Bonds to private investors will depend upon the traffic studies to be made by the U. S. Corps of Engineers and the Pittsburg-Cleveland Waterway Authority. The least the Legislatures of Ohio and Pennsylvania and the Congress can do is to pass the interstate compact law and then the project will succeed or fail, depending on the benefits derived.

It is hoped the attached papers will support this brief oral statement.

In conclusion may I say that I think the committees' Vice-Chairman, Congressman Clarence J. Brown of Ohio, will agree with me that the late Congressman Michael J. Kirwan worked very hard as the Chairman of the House Sub-Committee on Public Works to insure an adequate summit reservoir supply of water for this waterway project.

Six of the seven possible reservoirs are in place today. The Pittsburgh-Cleveland Waterway is an international waterway between the Saint Lawrence Seaway and the Ohio River Navagation System - intended as a low cost facility to move coal out of the upper Ohio River Valley into world commerce to help bring our foreign trade program more nearly into balance. I was appointed by President Eisenhower as a member of the Saint Lawrence Seaway Development Corporation. The first five years of my service was during the construction period and the next ten years represented the start up period.

When we built the Seaway 80% of the cargo ships of the world could use it. It is now 26 years later and the ships are bigger, but the capacity of the Saint Lawrence Seaway can handle a tremendous coal tonnage capable of moving directly into the oceans of the world without trans-shipment. The United States needs to develop this low cost coal transportation facility now.

I wish to make one further comment before you question me. The newspaper announcement of the hearing said:

"Special attention will be given to development strategies aimed at attracting and promoting the growth of high-technology companies".

I applaud the committee's interest in high-technology, but I caution you to be concerned about ordinary people capable of building the billion-dollar waterway I have suggested. Please remember the U. S. Army Corps of Engineers has spent five years and $500,000 to determine that the Pittsburgh-Cleveland Waterway is technically sound and economically justified. All we need now is the interstate compact authorization and the project can be built with revenue bonds. Surely this plan is consistent with President Reagan's fiscal policies.

SEVENTY-TWO

Water, Rail Routes Key To Farms

By BOB FICK

WASHINGTON (AP) — With expansion of exports considered pivotal to improving the flagging U.S. farm economy, America's transportation network must be made more efficient, the Agriculture Department's transportation chief says.

The key, according to Martin Fitzpatrick, is an integrated transportation network that eliminates bottlenecks on the waterways and maintains service on important, though sometimes uneconomical, farm-belt rail lines.

"Agricultural exports are essential to maintaining farm incomes," Fitzpatrick says, citing the fact that a third of the nation's commodity production goes to foreign buyers.

"The last thing U.S. farmers need is to have their income potentials hampered by marketing problems," he says. "Transportation is critical to continued growth in agricultural exports."

On Monday, the Agriculture Department reported that wheat exports in 1981-1982 should hit a record 50.1 million tons, half the world trade. Export tonnage for corn is also expected to exceed the previous year's level.

The ability to move as much of the U.S. crop as possible to export sea ports is all the more important, Fitzpatrick says, because record global production of wheat and grains has driven market prices down.

Department analysts reported that recent export shipment rates for corn and wheat have been slightly below levels anticipated for the season, apparently because many importing nations expect no price increases and because of continued high interest rates and storage charges.

And although the United States has prospects for improved marketing in Africa, Russia, Spain and Egypt, the analysts say the country is facing some problems in maintaining and expanding exports elsewhere. Those gains, they say, could be offset by new wheat sales agreements Canada and Australia have made with China. They also say growth of the U.S. market in Japan, Taiwan and Korea is being inhibited for various reasons.

"Without adequate service on a timely basis at reasonable cost, export markets will diminish," Fitzpatrick said.

The director of civil works for the Army Corps of Engineers told the congressional Joint Economic subcommittee on agriculture and transportation that the inland waterways network, which is responsible for moving the bulk of export grains to port, must be modernized if it is to satisfy the rising demand to move farm commodities.

But severe constraints on federal expenditures mean that modernization drive must rely, not on tax dollars, but on user fees paid by those who use the waterways as President Reagan has proposed, said Maj. Gen. E.R. Heiberg.

The Pittsburgh-Cleveland Waterway Development Compact

Federal legislation exists which allows states with common waterways to form a compact to control and develop these joint waterways. Recently, the Governors of Ohio and Pennsylvania joined together to call for and support the renovation of the Gallipolis Locks and Dam complex on the Ohio River. Governor Dick Thornburgh of Pennsylvania stated that this project is crucial to the retention of thousands of jobs in the upper Ohio River Valley. Governor James Rhodes of Ohio also promoted the project which includes constructing a 1.7 mile canal paralleling the Ohio River on the West Virginia side.

Legislation has been introduced into the Ohio and Pennsylvania General Assemblies to create and establish the Pittsburgh-Cleveland Waterway Development Compact which would clear the way for renovations such as Gallipolis. This legislation authorizes the Governors of Ohio and Pennsylvania -- plus five appointed commissioners from each state -- to form the Pittsburgh-Cleveland Waterway Authority. The Authority's territory would be the drainage basin of Lake Erie east of Sandusky, Ohio, and the drainage basin of the Ohio River east of the Markland Locks and Dam on the Ohio River.

It will be the Authority's responsibility to sponsor, promote, encourage and support the planning, construction, operation and maintenance of all aspects of the Pittsburgh-Cleveland Waterway. This would include the construction of a waterway connecting the Pittsburgh and Cleveland metropolitan areas, expansion and maintenance of locks and dams, providing for modernization of port facilities, and other water development projects involving hydroelectric power, recreational areas, flood control and water supply. In the renovation of the Gallipolis Locks and Dam complex, the Authority would have the support of West Virginia Governor Jay Rockefeller who also publically endorsed the project saying West Virginia is willing to donate the land.

Two states acting jointly can accomplish more in the development of their regions water resources on a long-term basis. Much of the industry in Ohio and Pennsylvania could benefit from water transportation. It is the most economic method for much of the industry located in this area to receive raw materials, fuels and transport their finished products to distant markets. Today, these industries are faced with rising costs of land transportation which have impaired the competitive position of the steel, coal, chemical and other industries resulting in shutdowns, unemployment and loss of income. For example, a recent article in Dunn's Business Month states that world demand for U. S. coal has been booming, but poor transportation facilities have not only slowed deliveries but helped make U. S. coal prices the highest in the world.

The Authority would have a responsibility to identify problems concerning water and related land resources in order to plan the most beneficial and cost effective water resource development projects. Improvements in water transportation would stimulate investment in capital equipment, improve productivity and expand employment opportunities of the Ohio River Basin and interconnected waterway regions.

Other multistate waterway compacts have successfully been formed, such as the Tennessee-Tombigbee Waterway Development Authority. With the authority from their own Waterway Development Compact, Ohio and Pennsylvania would be united in making the Upper Ohio River and Eastern Lake Erie Region as attractive to industry as any region in the world.

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December 10, 1980

Governor James A. Rhodes
State House
N. W. Corner
Columbus, Ohio 43215

and

Governor Richard L. Thornburgh
Capitol Building
Harrisburg, Pennsylvania 17120

Gentlemen: In re: HOPE for the FROST-BELT taxpayers

Ohio and Pennsylvania are faced with a shortfall in tax revenue. Both of you gentlemen will find a way to increase taxes and to reduce payrolls. This is proper and the taxpayers will support your reasonable programs, but the missing element is HOPE for the taxpayers.

Ohio and Pennsylvania are part of the FROST-BELT. Business is moving to the SUN-BELT with the aid of the Federal Government. There is something each of you can do to stop - or at least slow down - this movement. You can work together to enact into law the "Pittsburgh-Cleveland Waterway Development Compact". A copy of the proposed compact under date of November 3, 1980 is attached.

When you read the proposed compact you will realize that your constructive and beneficial influence on the job opportunities to be provided in your states will extend far beyond your current terms as Governor. Each of you will be a member of the authority and you will each appoint five members of the authority. In this way your philosophy of government and public service will be projected into the future.

To compete in the world markets of the future we must reduce costs and improve quality. Our workers and our technology will improve the quality. The taxpayers need and deserve the leadership of our governors to reduce costs via waterway development.

The SUNBELT governors are far ahead of the FROST-BELT governors in this effort. (Witness the enclosed copies of news stories, etc.).

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Governors Rhodes and Thornburgh - 2

The Tennessee-Tombigbee Waterway Development Authority received a supplemental appropriation of $58 million and a $225 million appropriation for a total expenditure of $283 million on their project in fiscal year 1981 from the Federal Government. Think of the current employment provided and the long term employment benefit from reduced transportation costs. Also, please note the New York Times November 2, 1980 story on dredging the Mississippi River to a depth of 55 feet from Baton Rouge to New Orleans to aid coal exports. Just think - it is almost 2,000 miles from the Monongahela River coal to New Orleans while the proposed 120-mile improvement will take the Monongahela River coal to the Saint Lawrence Seaway for shipment throughout the world.

Both of you are urged to take the leadership in establishing the Pittsburgh-Cleveland Waterway Development Authority. The taxpayers need your help.

Respectfully submitted,

K. M. Lloyd

Kenneth M. Lloyd

KML:ml
encl.

YOUNGSTOWN DAILY VINDICATOR

SATURDAY, SEPTEMBER 12, 1981

Governors Make Pitch For Locks

HOGSETT, W.Va. (AP) — The governors of West Virginia, Ohio and Pennsylvania don't say whether they favor bagels, but they have made a big pitch for locks.

Friday, the three specifically called for the U.S. taxpayer to foot the bill for a $300 million renovation of the Gallipolis Locks and Dam complex on the Ohio River.

"The cost-benefit ratio on this project is 13-to-1," said Gov. Dick Thornburgh of Pennsylvania. "This project is crucial to the retention of thousands of jobs in the upper Ohio River Valley."

Gov. Jay Rockefeller of West Virginia and Ohio's Gov. James Rhodes also made pitches for the project, which involves construction of a 1.7 mile canal paralleling the Ohio River on the West Virginia side.

Rockefeller said he didn't mind that West Virginia was donating the land for the project, "because the benefits are so great." However, he did say the state could not afford to bear much of the financial burden for the project.

Rockefeller also pointed out that the locks and dam were built in 1937, the year he was born. He said the locks were badly outdated and were causing a dangerous bottleneck on the Ohio, one that was delaying commercial barge traffic and causing needless collisions.

The U.S. Army Corps of Engineers has recommended that the complex be updated.

September 24, 1981

DO YOU BELIEVE IN MIRACLES? - - HERE'S ONE!

A lake to river waterway -- Pittsburgh to Cleveland -- joining the St. Lawrence Seaway to the Ohio River inland waterway system.

WE HAVE THE MONEY TO BUILD IT! - - VIA TOLLS

It will be financed just like the Ohio and Pennsylvania Turnpikes.

Tow boats currently pay a fuel tax of from 4 cents per gallon to a future tax of 10 cents per gallon, and in addition, a toll will be charged on the lake to river waterway to retire the non-taxable bonds issued and purchased by the public. If you elect to use the Ohio Turnpike, you pay the regular gasoline taxes, etc., and in addition, a "toll"! The lake to river waterway will provide a choice -- waterway, or any other means of transit!

The summit reservoir will be just like the Panama Canal, only it will join Lake Erie and the Ohio River rather than the Pacific and Atlantic Oceans.

The summit reservoir system, to provide the water supply, is in place. Six reservoirs have been built; only the Grand River Reservoir remains to be built, and the project contemplates the building of an important new source of hydro power called "pumped storage" - on the north end of the Grand River Reservoir -- and no pollution problem!

YOU DECIDE!

If you want to be a part of the "miracle", support the passage of House Bill No. 553 in Ohio and the passage of House Bill 308 and/or Senate Bill No. 436 in Pennsylvania to create the PITTSBURGH - CLEVELAND WATERWAY AUTHORITY.

The new Authority will tell us how to get the miracle accomplished.

IT IS A MIRACLE - TO THINK - -

That only in the area between Pittsburgh and Cleveland, can we duplicate the Panama Canal with its summit water supply system to provide an International Waterway Connection that is economically justified.

92-785 0 - 82 - 3

NEW WATER POWER AND WATER TRANSPORTATION FACILITIES CAN CREATE INDUSTRIAL GROWTH AND JOB OPPORTUNITIES IN THE NATION'S INDUSTRIAL HEARTLAND BETWEEN PITTSBURGH AND CLEVELAND.

Now is the time for Big Business and Working People to join forces.

Today, the competition for employment comes from diverse parts of the world. No government has the power to enforce a program of equal opportunity or security for working people competing for the jobs of the world-wide industrial complex of today. Foreign governments and international corporations can-and-do agree on tariffs, taxes, government subsidies and a multitude of other costs which directly affect the continuation of employment in our area. If the Pittsburgh-Cleveland Waterway Authority is created by the passage of House Bill No. 553 in the Ohio Legislature and the passage of House Bill No. 308 and/or Senate Bill No. 436 in the Pennsylvania Legislature, then our concerned citizens have a chance to actually witness another connection of the inland waterway transportation system of the United States with the Great Lakes-Saint Lawrence Seaway Waterway transportation system. Water transportation costs are the lowest the world over. Pumped storage to develop peak electric power on the Northern end of the Grand River Reservoir will benefit job producing businesses as they compete in a world wide market. The availability of relatively low cost transportation and electric power will tend to insure employment for working people. If our manufacturing costs are low and the quality of our products high, it is very difficult for others to take employment opportunities away from our working people. Now is the time to act.

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Why did the Vindicator's staff say William J. Brown, Editor and Publisher, "gave time and support to the cause of the lake-to-river waterway."? Because Mr. Brown was concerned about working people and he knew the Corps of Army Engineers had studied the lake-to-river waterway for five years at a cost of $500,000 to determine if it was "economically justified"; i.e., its benefit to the Nation was greater than its cost. The Corps approved the project in accordance with its Congressional authorization. Today the need is to move coal out of the Pittsburgh region and export it through the Saint Lawrence Seaway. The world needs our coal and our Nation needs to export it to reduce our adverse balance of payments problem brought about by our large oil imports. The need is immediate both as a way to export coal and as a way to create meaningful construction employment.

****

The money to pay for the lake-to-river waterway would come from a graduated Two-Boat tax (P.L. 95-502) which started last fall and will increase to ten cents per gallon by 1985. The National Coal Association no longer opposes user charges or tolls on waterways. While the lake-to-river waterway is authorized, the plan expressed in the following language would help speed up the actual building process. "U. S. Sen. Domenici's Amendment No. 31 offers 'automatic authorization' of projects which involve user financing of 50 percent of construction and 75 percent of Operation & Maintenance

costs." The waterway savings to shippers are so great over the authorized lake-to-river waterway between Pittsburgh and Cleveland that the project can be financed easily. In addition pumped storage for electric generating facilities will also be provided on a user charge basis. All related water resource development opportunities will be pursued by the Pittsburgh-Cleveland Association for the Development of Interstate Navigability of the Allegheny, Monongahela, and Ohio (DINAMO).

Because DINAMO is financed by Big Business Politics in and around Pittsburgh, it is good to have the Pittsburgh-Cleveland Waterway Development Authority to represent Working People Politics. If both groups work together, the greater public interest will be better served over a larger geographic area. Many small businesses will have a chance to use the water resources as they develop to provide jobs for working people. In fact, it is hard to think that any concerned legislator would fail to support the Pittsburgh-Cleveland Waterway Development Compact.

The working people and unions will be watching to see how our legislators vote.

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For further information contact the sponsor of the authorizing legislation:

Representative Joseph J. Vukovich
52nd Ohio House of Representatives District
State House
Columbus, Ohio 43215

SUBJECT: PITTSBURGH-CLEVELAND WATERWAY DEVELOPMENT COMPACT

TO: The legislatures of Pennsylvania and Ohio and to the Congress of the United States.

FROM: The Steering Committee - John M. McCarrell, Chairman; Nick Stipanovich, Vice Chairman; Emil Decembre, Vice Chairman; Kenneth M. Lloyd, attorney; David Gundry; Samuel G. Neff; and John L. Sundheimer.

This Report is dated November 3, 1980

Pursuant to law as set forth in United States Code Annotated; Title 33-567(a) authority is given to the states of Pennsylvania and Ohio to negotiate this interstate compact and to the Governors to sign the compact to become effective when approved by the state legislatures and by the Congress. The law reads as follows:

"The consent of Congress of The United States is given to the States of Maine, New York, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, Pennsylvania, West Virginia, Kentucky, Indiana, Illinois, Tennessee and Ohio or any two or more of them to negotiate and enter into agreements or compacts for conserving and regulating the flow, lessening flood damage, removing sources of pollution from the waters thereof or making other public improvements on any rivers or streams whose drainage basins lie within any two or more of the said States.

"No such compact or agreement shall be binding upon any State or party thereto unless it has been approved by the legislatures of each of the States whose assent is contemplated by the terms of the compact or agreement and by the Congress. June 8, 1936, Chapter 542, Sections 1 and 2, 49 Statute 1490."

The report of the Steering Committee is submitted as attached:

INTERSTATE COMPACT BETWEEN THE COMMONWEALTH OF PENNSYLVANIA AND THE STATE OF OHIO ESTABLISHING THE PITTSBURGH-CLEVELAND WATERWAY AUTHORITY TO SPONSOR A WATERWAY CONNECTING PITTSBURGH, PENNSYLVANIA AND CLEVELAND, OHIO AND OTHER ESSENTIAL WATER RESOURCE DEVELOPMENT PROJECTS IN THE UPPER OHIO RIVER BASIN.

PITTSBURGH-CLEVELAND WATERWAY DEVELOPMENT COMPACT

Whereas, A substantial part of the territory of each of the signatory States is situated in the watersheds of the Upper Ohio River System and Lake Erie, and

Whereas, The highly industrialized economies of each of the signatory States are dependent upon the availability of water transportation for supplies of basic raw materials and fuels and for economical access of finished products to distant markets, and

Whereas, The basic industries in both Northeastern Ohio, WEstern Pennsylvania and other Ohio Valley States are severely burdened by high costs of transportation by overland modes and by the rising costs of transportation by water resulting from obsolete, inadequate and deteriorating facilities on the Ohio, the Monongahela and other tributaries of the Ohio and

by the inadequate depths and port facilities in Cleveland Harbor and in other port cities on the Eastern Coast of Lake Erie and the upper Ohio River system, and

Whereas, These cost burdens have impaired the competitive position of the steel, coal, chemical and other basic industries in the affected region, with consequent reduction in employment and incomes, and

Whereas, The provision of a modern waterway connection between the metropolitan centers of Pittsburgh, Pennsylvania and Cleveland, Ohio, the replacement with modern structures of existing constrictive navigation facilities on the Upper Ohio River and its tributaries, and the modernization of Lake Erie and Ohio River port facilities would stimulate investment in capital equipment, improve productivity and expand employment opportunities throughout the region served by these waterways, thereby alleviating depressed conditions and establishing a foundation for renewed prosperity, and

Whereas, The frequency of floods and seasonal shortages of water for community and industrial use, the growing requirements for electric power, water-based recreation and enhanced fish and wildlife resources, as well as improved navigation facilities, necessitate comprehensive, coordinated water resource development in order to facilitate the achievement of essential regional social and economic goals, and

Whereas, Economic unification of the Upper Ohio River System and Lake Erie communities through mutually supportive water resource development, eliminating wasteful rivalries and recognizing their broad common interests, will redound powerfully to the benefit of each, and

Whereas, Projects for attaining these widespread public values can best and most effectively be accomplished and the benefits maximized by and through a joint or common agency to coordinate and advance such a program of development;

Now, therefore, The Commonwealth of Pennsylvania and the State of Ohio do hereby covenant and agree as follows:

ARTICLE I

The signatory States hereby create the Pittsburgh-Cleveland Waterway Development Authority, hereincalled the Authority, which shall be a body corporate, with the powers and duties set forth herein, and such additional powers as may be conferred upon it by subsequent action of the respective legislatures of the signatory States or by act or acts of the Congress of the United States.

ARTICLE II

The membership of the Authority shall consist of the Governor of each signatory State and five other citizens of each signatory State, to be appointed by the Governor thereof. Each appointed member of the Authority shall be a citizen of that State who is interested in, and knowledgeable concerning, the

the promotion and development of waterways and water transportation and other water resource functions including, without limitation, flood control, water supply, hydroelectric power, stream flow management, water-based recreation, fish and wildlife conservation and enhancement, and multipurpose development.

The appointed members from each State shall be chosen in the manner and for the terms provided by the laws of the State from which they shall be appointed, and any member may be removed or suspended from office as provided by the law of the State from which he shall be appointed. The members of the Authority shall serve without compensation, but shall be paid their actual expenses incurred in and incident to the performance of their duties, but nothing herein shall prevent the appointment of an officer or employee of any State or of the United States Government.

ARTICLE III

The Authority shall elect from its number a chairman and vice chairman, and shall appoint, and at its pleasure remove or discharge, such officers and legal, clerical, expert and other assistants as may be required to carry the provisions of this Compact into effect, and shall fix and determine their duties, qualifications and compensation. It shall adopt a seal and suitable by-laws, and shall adopt and promulgate rules and regulations for its management and control. It may establish and maintain one or more offices within the Designated Territory for the transaction of its business, and may meet at

any time or place. One or more members of the Authority from each of the member States shall constitute a quorum for the transaction of business.

The Authority shall submit to the Governor of each State, at such time as he may request, a budget of its estimated expenditures for such period as may be required by the laws of such State for presentation to the legislature thereof.

The Authority shall keep accurate books of account, showing in full its receipts and disbursements, and said books of account shall be open at any reasonable time to the inspection of such representatives of the respective signatory States as may be duly constituted for that purpose.

On or before the first day of December of each year, the Authority shall submit to the respective governors of the signatory States a full and complete report of its activities for the preceding year.

The Authority shall not incur any obligations of any kind prior to the making of appropriations adequate to meet the same; nor shall the Authority pledge the credit of any of the signatory States, except by and with the authority of the legislature thereof.

ARTICLE IV

A. The Authority shall sponsor, promote, encourage and support the planning, construction, operation and maintenance of (1) a waterway adequate for the requirements of modern traffic and providing a navigable channel of minimum stable depth of eighteen feet, if feasible, but in no event less than

nine feet, connecting the Pittsburgh, Pennsylvania and Cleveland, Ohio metropolitan areas; (2) the Gray's Landing and Point Marion projects to replace Locks 7 and 8 on the Monongahela River, and projects to replace Lock 3 and such other improvements to navigation on the Monongahela as the Authority may from time to time specify; (3) the expansion of capacity of the Gallipolis Locks and Dam on the Ohio River to conform to the capacity and dimensions of the navigation facilities above and below the Gallipolis site; (4) the rehabilitation and/or modernization of the Emsworth, Dashields and Montgomery Island Locks and Dams on the Ohio River; (5) the modernization of the locks and dams on the Kanawha River in West Virginia; (6) modernization and provision of public port facilities on Lake Erie and other waterways within the Designated Region; and (7) such other water resource development projects and programs within the Designated Region as the Authority shall determine to be in the public interest, including without limitation projects for the use and benefit of navigation, flood control, hydroelectric power (supplemented in the case of the hydroelectric power features of the Pittsburgh-Cleveland Waterway and elsewhere, as appropriate, by pumped storage facilities), water supply, low-flow augmentation, water based recreation, fish and wildlife enhancement and multipurpose development.

B. In making such determinations with respect to any such project or program, the Authority shall give primary consideration to its potential contribution, under applicable environmental safeguards, to industrial modernization and expansion, regional development and the increase in employment, wages and incomes within the Designated Region.

C. The projects listed in Section A of this Article and such other projects and programs as the Authority shall determine to be in the public interest shall be entitled to highest priority for purposes of formulation of water resource planning by the Authority and the signatory States, in such planning and in proposals and recommendations to Federal agencies, the President of the United States, and the Congress of the United States in connection with authorization and funding of water resource development. The Authority and the signatory States shall use their best efforts to advance the foregoing projects to completion.

D. The Authority shall promptly institute a program of annual surveys of the Designated Region to identify problems concerning its water and related land resources with a view to ascertaining opportunities for feasible water resource development projects for inclusion in the Authority's program. The results of such surveys shall be reported to the Governors of the signatory States for appropriate State action. In making such surveys the signatory States shall provide all facilities

E. The Authority shall carry out studies with respect to projects listed in section A of this Article and not therefore authorized by Congress, such other projects and programs as the Authority shall determine to be in the public interest, and projects identified in its annual survey reports as providing opportunities for feasible development. Such studies shall evaluate such projects in accordance with principles and standards promulgated by cognizant Federal agencies and shall in addition evaluate such projects in accordance with principles and standards promulgated by the Authority which shall be formulated, after public hearing and in consultation with appropriate water resource agencies of the signatory States and United States Government, to require primary consideration of the project's potential contribution to the economic and social development of the Designated Region. The results of any such study showing that the benefits of the project to whomsoever they may accrue exceed relevant costs, under either applicable Federal principles and standards or those promulgated by the Authority, shall be reported to the signatory States. The Authority and the signatory States shall thereupon use their best efforts in support of Congressional authorization and funding where appropriate, and, in all other cases, in support of authorization and funding by the legislature or legislatures of the signatory State or States significantly benefitting from such project. Projects authorized and funded by such State or

States shall be planned, engineered and constructed by the Authority, subject, however, in the case of a project situated on a navigable waterway to the approval of the Secretary of the Army acting through the Chief of Engineers.

F. In carrying out its functions under this Article, the Authority shall cooperate with other public or private groups, whether local, State or national, having a like interest in water resource development within the Designated Region and shall cooperate with such groups in advancing governmental policies and programs which in the judgment of the Authority will facilitate the attainment of the objectives of this Compact.

ARTICLE V

The Designated Region shall comprise the drainage basin of Lake Erie east of Sandusky, Ohio, and the drainage basin of the Ohio River east of the Markland Locks and Dam on the Ohio River.

ARTICLE VI

The Authority shall be the responsible agency for purposes of undertakings to comply with conditions of local cooperation specified in legislation applicable to projects determined by the Authority to be in the public interest. States, local governmental agencies and private interests shall furnish to the Authority such funds and property as may be necessary to enable the Authority to comply with such conditions, and the obligations of particular states, local governmental agencies and private interests in this regard shall be enforceable by

the Authority in accordance with the laws of the member State applicable in the circumstances. The Governor of each member State shall use his best efforts in behalf of legislation to facilitate enforcement of such claims by the Authority.

ARTICLE VII

The signatory States agree to appropriate for the salaries, office and other administrative expenses, their proper proportion of the annual budget as determined by the Authority and approved by the Governors of the signatory States, one-half of such amount to be prorated among the several States in proportion to their population within the Designated Region at the last preceding Federal census, the other half to be prorated in proportion to their land area within the Designated Region.

ARTICLE VIII

This Compact shall become effective upon ratification by the legislatures of Pennsylvania and Ohio and upon approval by the Congress of the United States; and shall become effective as to any additional States signing thereafter at the time of such signing.

ARTICLE IX

A. This Compact shall continue in force and remain binding on each signatory State until the legislature or governor of each or either State takes action to withdraw therefrom: Provided, That such withdrawal shall not become effective

until six months after the date of the action taken by the legislature or governor. Notice of such action shall be given to the other signatory State or States by the secretary of state of the signatory State which takes such action.

B. Without further submission of this Compact, the consent of Congress is given to any State to become a party to it in accordance with its terms.

C. The right to alter, amend or repeal this Act is especially reserved.

In Witness whereof this Interstate Compact by and between the Commonwealth of Pennsylvania and the State of Ohio has been duly executed by the Governors of the respective States this _____day of _____, 1980.

_____

Governor, Commonwealth of Pennsylvania

_____

Governor, State of Ohio

Approved by the Legislature of the Commonwealth of Pennsylvania this _____day of _____,1980.

_____, Speaker of the House of Representatives

_____, President of the Senate

Approved by the Legislature of the State of Ohio this _____day of _____, 1980.

_____, Speaker of the House of Representatives

_____, President of the Senate

Approved by the Congress of the United States of America this_____ day of _____, 1980.

_____, President of the Senate

_____, Speaker of the House of Representatives

Please note: Procedures for approval can be similar to those used in approving the Ohio River Valley Water Sanitation Compact on June 30, 1948.

Act No. 50 of the General Assembly of the Commonwealth of Pennsylvania; approved April 2, 1945.

Ammended Senate Bill No. 33; passed by the Regular Session of the 93rd General Assembly of Ohio on May 24, 1939; approved by the Governor on May 29, 1939; effective August 31, 1939.

Representative BROWN. Mr. Weeks, if you would like to proceed, we would be delighted to hear your statement.

STATEMENT OF W. LAWRENCE WEEKS, DISTRICT MANAGER, MAHONING VALLEY DISTRICT, REPUBLIC STEEL CORP.

Mr. WEEKS. Thank you, Congressman. For the past 24 years, I have been associated with Republic Steel Corp. in various management positions in the company's operations at Gadsden, Ala., and at the general office in Cleveland, and since 1978, I have served as the district manager of the Mahoning Valley district, which does business with operations in Youngstown, Warren, and Niles.

I appreciate this subcommittee's interest in our steel operations and I am pleased to have the opportunity to discuss Republic's role in the valley.

Republic's roots in the valley run very deep. It's predecessor companies go back to 1846. For 135 years, Republic and its predecessor companies have played an important role in the economy of this area. That role continues today. Last year, for example, our district payroll exceeded $159 million. Employee benefits, apart from the payroll, amounted to about $59 million more, and we had combined monthly average employment of 6,500 persons.

While our past performance is a matter of record, recent economic developments have raised some doubts as to steel's future in the valley. There is no doubt whatsoever in my mind that Republic will continue to be a viable force in this area for a long time to come.

Such optimism is warranted in view of the old adage that reminds us that the future belongs to those who prepare for it. I think Republic has prepared to remain in the valley. Our capital expenditures in recent years underscore this preparation.

In the sixties, we consolidated our Youngstown, Warren, and Niles districts to form the Mahoning Valley district. This was a big step forward in improving our efficiency. During the decade of the sixties, we installed a continuous stretch reducing mill at Youngstown. In Warren, we installed the first of the American steel industry's "new generation" hot strip mills and converted our mill facilities to the basic oxygen furnace shop.

In the seventies, a new silicon line for annealing electrical steel was built in Warren. This line replaced 12 lines that were built in 1933, and was a terrific energy saver to us, and made us a leading supplier in electrical steels for electrical manufacturing.

Another major project at Warren was completed in 1979 with the startup of the new 85-oven coke battery equipped with the best available technology as to air pollution controls and process controls. The new battery replaced two old batteries that have since been removed.

Although we are still in the early years of the present decade, our capital expenditures have continued into the 1980's. A modernization program at the Warren blast furnace has been completed and features a new raw material charging system, which allows us to increase our daily output from 2,800 tons to 3,400 tons of iron per day. The system is called a Paul Wurth top and is the first in the Nation to be retrofitted to an existing blast furnace.

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So far in the 1980's we also have acquired a sister plant from United States Steel in Youngstown, and we have constructed a new office building in Warren to house our data processing computer and engineering functions.

These improvements will go a long way in assuring our ability to sustain operations in this area and to provide greater stability to our employment.

My confidence in the future is bolstered further by the skill and experience of our work force. Many of our families here can boast of having three and four generations of steelmakers.

It also is reassuring to Republic to know that it is investing in an area that appreciates the importance of steelmaking jobs, steelmaking payrolls, steelmaking tax payments and all the rest that goes with being a major productive enterprise.

The measure of success for our Mahoning Valley District is linked, of course, to Republic's corporate performance and to the steel business generally.

The key to first rate financial health for steel, as with practically all other industries, is adequate volume coupled with a satisfactory cost-price relationship. With the exception of only a few years during the past 20, we've been short on both counts—short enough to place steel at or near the bottom of the list of all manufacturing industries as rated in return on equity.

Virtually all steelmakers have been forced by financial circumstances to operate aging facilities, some of which should have been replaced. It boils down to this. The American steel industry could find in the 1980's a renewed opportunity to grow in keeping with the expanding needs of this country. Whether it will in fact, will depend upon the industry's financial performance in the interim. Without question, steelmakers will have to accord first priority to continued modernization which is absolutely mandatory to cope with competition, changing customer requirements, and the pressures of rising costs.

The industry hasn't grown, not because it didn't want to and not because our potential market hasn't grown, but rather because a crucially important segment of the market has gone to foreign steel producers. The business we have lost to foreign steelmakers represents the incremental tonnage that would have helped to push our earnings, on a sustained basis, to a more respectable level.

At any point in time, our district is in competition with other Republic locations for corporate funds that become available for improvements. That's why the overall economic health of Republic and the industry are so important to our district and to this valley.

Locally, we must take advantage of opportunities to remain an attractive location for corporate expenditures. Our Mahoning Valley District is not without its problems. It is difficult, for example, to recover all of our accelerating costs, such as our transportation costs. Our district has suffered from escalating costs of material movement to a far greater degree than steel plants having a lake-front location.

We must also find ways to maintain viability despite burdensome costs for environmental control facilities. Look at what has happened in the past few years to Republic's district costs for operating and maintaining these facilities. In 1979, in the Mahoning Valley, the tab for operating environmental control facilities averaged $600,000 per

month. In 1980, it jumped to $800,000 a month, and in the first 10 months of this year, $1.2 million per month. This is only for operating and maintaining the facilities. It doesn't include the cost to install them.

As previously announced, we were scheduled to shut down permanently our blast furnace operations in Youngstown at the end of 1982. We would like to continue to operate one blast furnance beyond that date, and for many months we have been negotiating with the U.S. Environmental Protection Agency to reach agreement on an extended period of operation. An agreement has not yet been reached, but we are hopeful that one will be forthcoming shortly.

I hope this brief commentary will help you to better understand Republic's presence in the valley. For the sake of emphasis, I want to reiterate my optimism as far as our future here is concerned. We've been here a long time. We have invested nearly $360 million in the last 10 years to remain competitive in this valley, so we expect to be here a lot longer.

In setting up this meeting, you asked for suggestions that might help this valley to recover its economic health. As a relative newcomer to the area, I would not presume to have a tailormade prescription for revitalization. Others who have spent their lives here are more qualified to address that topic.

Nonetheless, I would like to offer a few brief comments.

For a long time, all of the valley's economic eggs were in one basket—the steel industry. For a long time, the need for a more diversified economy was pushed into the background. Now, with the recent steel reductions here, the need for diversification in the valley is widely recognized. Its surfacing may be a few decades late, but not too late for constructive action aimed at attracting new employers be they large or small.

I wonder about the efforts of those of us and the organizations that are having the responsibility of attracting prospective employers to the area. Are there too many groups involved? Are we getting satisfactory results? On the other hand, are these groups getting the kind of cooperation they need to be successful? Are the rest of us, including our local governments, really a part of the problem rather than being a part of the solution?

Should Trumbull and Mahoning Counties, particularly the cities of Warren and Youngstown, be working closer together to attract employers to the area? Is it not true that if a new employer comes into either city or either county, both cities and both counties benefit?

The multistructured level of local government has brought about many burdens on our local taxpayers. We're being asked to support too many layers of government, too many school systems, too many security systems.

Obviously, I don't have all the answers, but I am convinced that the questions should be asked, and that the talent and machinery to address, and satisfactorily resolve, these kinds of questions already exist in the valley. Perhaps, with the need for revitalization now receiving so much attention, we can look forward to some answers and see some results.

Thank you, Congressman.

Representative BROWN. Mr. Weeks, I thank you for your statement; the facts of what you have done; and some of the basic questions that you asked.

I think we'll proceed with the other two witnesses, and then ask the questions of the group together, because some of the questions that you have addressed perhaps might also be applicable to the efforts that the other two witnesses, Mr. Tod and Mr. Roth, have made. Gentlemen, please come forward and proceed in your own way.

STATEMENT OF DAVID TOD, CHAIRMAN OF THE BOARD AND PRESIDENT, TORENT, INC., ACCOMPANIED BY DANIEL B. ROTH, VICE CHAIRMAN OF THE BOARD

I. BACKGROUND OF ENTREPRENEURS

Mr. ROTH. Good morning, Congressman. By way of introduction, both Mr. Tod and I were born and raised in Youngstown, Ohio. Mr. Tod was graduated from Massachusetts Institute of Technology in 1949 with degrees in mechanical engineering and business administration. He returned to Youngstown where he held engineering and operating positions with Youngstown Sheet & Tube Co.; Sharon Steel Corp.; and Interlake Iron Corp. He then became a registered representative of the New York Stock Exchange, and for years has been associated with Prescott, Ball & Tubren, an investment banking firm.

Mr. Tod is chairman of the board and president of Torent, Inc., a local venture capital company; and also serves as chairman of the boards of McDonald Steel Corp.; Torent Oil & Gas Co.; Torent Aircraft Corp.; and Morrison Metalweld Process Corp.; and is also a director of Commuter Aircraft Corp. and of Albco Foundry Co.

I was graduated from Miami University of Ohio, in 1951, with a finance degree, and subsequently served as a management analysis officer in the Air Force for 3 years. I then attended Case Western Reserve University Law School, receiving my juris doctor degree in 1956. Since that time I have been practicing law in Youngstown, and am now a senior partner in the firm of Roth, Stephens & Blair. I now serve as the vice chairman of the boards of Torent, Inc., McDonald Steel Corp., Torent Oil & Gas Co., Torent Aircraft Corp., and Morrison Metalweld Process Corp. I also serve as a director of the Mahoning National Bank of Youngstown; and hold positions as a director of a number of other companies.

Mr. Tod and I cofounded National Data Processing Corp. in 1961, together with a third person who left IBM in order to join our company as president. We built that company from a small, independent data processing firm into a national company which we ultimately sold to a division of Travelers Insurance Co. in 1969. Mr. Tod and I then formed Torent, Inc. which was originally known as Toro Enterprises, for the purpose of becoming a venture capital, management, and financial advisory company.

In 1971 we purchased Recreational Industries, Inc., a small firm in Lordstown, Ohio, which had four employees and which was converting vans into campers and other special-purpose vehicles. By 1978 this

company had grown to more than 220 employees, producing approximately $9 million a year in sales. At that time, we sold the company; and subsequently acquired Morrison Metalweld Process Corp., a Buffalo, N.Y., company which we moved to Youngstown. Torent, Inc. presently holds Morrison Metalweld Process Corp., Torent Oil & Gas Co., and Torent Aircraft Corp. as wholly owned subsidiaries. We also have important interests in Commuter Aircraft Corp. and in McDonald Steel Corp.

Neither Mr. Tod nor I are full-time employees of Torent. Instead, we have consistently taken the role of financiers and management consultants for these companies. We have avoided becoming directly involved in operations.

II. COMMUTER AIRCRAFT CORP. AND M'DONALD STEEL CORP.

For the past 2 years we have been deeply involved in the formation of Commuter Aircraft Corp. and McDonald Steel Corp. Both of these companies have attracted tremendous amounts of national publicity, and to date, the progress of both companies has lived up to our expectations. McDonald Steel is already employing about 75 steelworkers. Commuter Aircraft recently commenced construction of a 225,000 square foot assembly plant and office facility adjacent to a runway at the Youngstown Municipal Airport. Our architect advises us that approximately 1,725 people will be employed during construction of the plant; and Commuter Aircraft expects to have over 1,600 full-time employees when in full operation. It is our estimate that by the end of 1983, these two companies together should have a total employee population of approximately 2,000 people, all in the Youngstown area.

We would now like to discuss each of these two companies in more detail, explaining some of the obstacles we encountered, how we attempted to overcome these obstacles and then set forth some recommendations in order to assist other venture capital situations in the future.

III. COMMUTER AIRCRAFT CORP.

Commuter Aircraft Corp., which I will hereafter refer to as CAC, was organized in Maryland in 1979 for the purpose of developing, manufacturing, and producing a 44-passenger commuter airplane in order to take advantage of the rising demand for commuter aircraft which has occurred since airline deregulation. Following market surveys, the size of the plane has now been increased to carry 50 passengers. The CAC–100 will be a four-engine, turboprop, commercial transport to be manufactured by CAC and certified under U.S. Federal Aviation Regulations Part 25.

The plane is specifically designed to meet the economic and operational requirements of short-range routes of commuter airlines. The plane will have a seating capacity for 50 passengers; a takeoff gross weight of approximately 34,000 pounds; an operating weight, empty, of approximately 20,713 pounds; a payload of approximately 10,000 pounds; a cruising speed of approximately 300 knots; and it will be powered by four Pratt & Whitney PT6A–45A engines. Its projected market price should approximate $5 million, in 1980 dollars.

The construction of the plant at the Youngstown Municipal Airport is now underway and is scheduled for competion by the end of 1982. Delivery of the first airplane is scheduled for the fourth quarter of 1984.

When CAC was formed, its founders decided to bring the project to Youngstown for the following reasons: First, they needed an airport which had substantial acreage available for a plant location and which had adequate runways available. Second, they needed a large, available labor pool accustomed to working in an industrial plant. Third, they felt that the depressed economic climate in this area would make it easier to obtain financial assistance at the Federal, State, and local levels.

Mr. Tod and I first became interested in the company because of the high caliber of people involved. The chairman of the board and "father" of the airplane, Mr. Lynn L. Bollinger, holds a doctorate degree from Harvard, and for 12 years was a full professor at the Harvard Graduate School of Business. He was the founder and president of Helio Aircraft Corp., which successfully developed and produced the Helio Courier, a short takeoff and landing light plane.

The president of CAC, Kornel Feher, was originally brought to America by the U.S. Government after having served as a freedom fighter in the Hungarian Revolution. He is a graduate of the University of Virginia with a degree in structural engineering and was a senior design structural engineer with Boeing Aircraft Corp.

The other directors of the company also have outstanding credentials, including Mr. Raymond Bisplinghoff who was formerly the dean of the School of Engineering at Massachusetts Institute of Technology, and who also served as Associate Administrator of the National Aeronautics and Space Administration; Hamilton Herman who was senior vice president for development of American Can Corp., and subsequently served as Assistant Secretary of Systems and Technology of the U.S. Department of Transportation; and Herman Ritter, another Harvard graduate, who was vice president of marketing of AVCO Corp.

After Mr. Tod and I completed our study of the new company, we decided to assist CAC in meeting its financial goals. We therefore achieved the following:

First of all, we formed a limited partnership and raised $300,000 through the sale of limited partnership interests at $10,000 per unit. We invested this $300,000 in the common stock of CAC.

We then assisted CAC in obtaining a $3,400,000 HUD/UDAG grant for the city of Warren, Ohio, which was then lent to CAC upon very favorable terms.

We then arranged a $10,000,000 construction and mortgage loan from a consortium of 10 area banks. The obtaining of this $10,000,000 loan plus the $3,400,000 loan from the city of Warren completed the financing which was required for the construction of the plant and office facilities.

We then negotiated for and consummated the purchase of 94 acres of land at the Youngstown Municipal Airport.

At this time we obtained a commitment from the Ohio Development Financing Commission which guarantees 40 percent of any loss

which might be sustained by any of the participating banks in the $10,000,000 mortgage loan.

We also assisted CAC in obtaining a 90-percent EDA guarantee of a $38,000,000 working capital loan.

We then raised an additional $3,000,000 through the private placement of more shares of stock in CAC.

This entire financial package amounts to $54,800,000, and has resulted in CAC being able to move forward with the project.

I would now like to introduce my partner, David Tod, who will describe the development of McDonald Steel Corp.

IV. M'DONALD STEEL CORP.

Mr. TOD. Thank you, Dan.

In March of 1980, Mr. Roth and I were approached by David Houck, who at that time was an employee of United States Steel Corp., serving as superintendent of the McDonald works. Most of the McDonald mills had been closed, and Mr. Houck was concentrating his efforts on supervising a 14-inch hot roll, steel-shaping mill, and related facilities.

He explained that he and his key employees all believed in the future financial viability of the 14-inch mill, and that they would be prepared to leave their employment with United States Steel if Mr. Roth and I would assist them in obtaining a lease of such facilities and in raising sufficient capital to operate the mill. Mr. Roth and I then spent several months investigating the economic feasibility of this proposal, as well as the people involved, and concluded this would be an excellent opportunity to start a new company in the area. We therefore took the following actions:

Worked with Mr. Houck on a feasibility study of the entire project.

Negotiated a contract for the facilities with United States Steel, which included a 20-year lease, with an option to purchase the mill, and rights of first refusal on several of the other McDonald mills.

Became involved as a "friend of the Court" in assisting the U.S. District Court resolve litigation which had been filed by various steelworkers' organizations against United States Steel and which threatened to block our ability to proceed with the 14-inch mill. It should be noted that the various labor organizations were represented by legal counsel who are on the staff for the Northeastern Ohio Legal Services Office, and which are funded by the Federal Government.

We formed McDonald Steel Corp. as a newly organized Ohio company, and raised $1,500,000 for the sale of common stock.

We assisted the company in obtaining an additional bank line of credit in the amount of $1,500,000.

We worked with representatives of United States Steel Corp. in segregating our facilities from the remaining McDonald mill complex.

We are most pleased to be able to report that McDonald Steel actively began operations, rolling hot steel, at the end of last month, and currently has 75 employees. I would also add that we worked 6 days last week, and there probably isn't another steel mill in the country that operated 6 days. We hope to be able to increase operations so that within 2 years our total employee population will reach between 200 and 250 people, and that within our first 5 years we will be able to

exercise our option to purchase the mill facilities from United States Steel.

The success of this project has also been the result of United States Steel's complete cooperation and their willingness to spend several millions of dollars to bring electric power into the plant and provide us with a turnkey operation.

V. OBSTACLES ENCOUNTERED IN THE DEVELOPMENT OF THESE COMPANIES

Needless to say, in the development of two startup companies such as CAC and McDonald Steel, we encountered a myriad of problems. I would now like to discuss these problems and how we overcame the barriers which they presented.

Perhaps the largest problem of all has been the continued skepticism and negative attitudes which we encountered at the local level. The people of the Mahoning Valley have seen so many businesses close, and have heard of so many projects which never came to fruition, that pessimism and cynicism have become the general thinking in this area. We attempted to combat this situation by appearing as frequently as possible as guest speakers for local organizations, telling our stories, and attempting to gain credibility. Likewise, the local press which at first joined in the skepticism, finally began to believe in our projects and assisted us with a great deal of encouraging news coverage.

Second, when attempting to raise investment capital for venture situations, we are naturally competing with other forms of investment which are far less speculative for the individual investor. We attempted to meet this problem by discussing proposed investments only with corporations and individuals who were very knowledgeable and well qualified financially to deal with a high-risk investment situation. Many people became involved not only for the potential gains involved in a startup situation, but also because they believed that they should invest in new ventures in this area to help put people back to work.

In McDonald's situation, time was of the essence in reopening the mill and not losing customers. We lost several months of valuable time because of the pending litigation between union organizations and United States Steel. It had been our feeling that the members of the unions would welcome the reopening of a steel mill; but, in fact, their lawsuit slowed down the development of the company. We counteracted this problem by becoming actively involved as a "friend of the court" in the litigation and assisting the parties reach a final resolution of the case.

Another problem we encountered was a bad dispute which erupted between city officials of Warren and Youngstown as to which city was entitled to the $3,400,000 HUD/UDAG grant. Because of the fight which ensued between the two cities, we almost lost these funds. We combated this problem by personally appealing to the various city officials to put the welfare of the general area above the political dispute between the cities. We recognized the validity of the arguments of both cities, but we could not jeopardize the entire project because of this dispute.

Another major problem we faced was obtaining commitments from the area banks for the $10 million construction and mortgage money.

The banks in this area have historically been extremely conservative, and in many instances we found it difficult to convince some bank officials to involve themselves in the CAC project. We combated this situation in two ways: First, by involving more banks so that the loss exposure of each bank is decreased; and second, by obtaining a 40 percent guarantee from the Ohio Development Financing Commission, which again served to decrease the loss exposure of the banks.

In general, the best tools which we had for overcoming the problems encountered were our own credibility and track record, together with the credibility and backgrounds of the principals involved in the aircraft company and the steel mill.

I will now turn the program back to Dan, who will make specific recommendations which might be of help to people who, in the future, will be working on new ventures.

VI. SPECIFIC RECOMMENDATIONS

Mr. ROTH. Thank you, David.

Needless to say, Mr. Tod and I have strong feelings about various things which could have assisted us in these projects. We recommend that your subcommittee look at the following areas:

First of all, if venture capital is going to help an economically depressed area, it is vital to have a venture capital company in operation actively searching for investments. If Torent had not been in operation, I seriously doubt that either CAC or McDonald Steel would be alive today. We would urge that interested parties such as bankers, business people, brokers, et cetera, in economically depressed areas take the lead in forming venture capital companies. Such firms should raise the funds for new local ventures, as well as providing any needed managerial support.

The second point is that the availability of capital is essential for the success of any venture capital company. We would urge that banks become more involved by making a small portion of their loans available for venture capital; and perhaps even more importantly, bank trust departments should be encouraged to invest a very small portion of their funds in new local ventures.

In Youngstown, for example, we have some large trust departments of banks, and the investments of these trust departments are understandably limited to very conservative investments. None of these investments, however, really help the local area; so in a depressed community we have a situation in which the bank investments are being made in out-of-town companies, with no investment assistance being made available at the local level.

Third, and very important, make it easier for people to invest in new venture situations in economically depressed areas, and that this can be helped by giving such investors an immediate tax shelter similar to that which is received by investors in oil and gas programs, and in research and development programs. Each time we spoke to a potential investor we ran into questions about the speculative nature of the investment and the tax ramifications, if any. It would have greatly assisted us if the investor could have taken an immediate tax writeoff of a portion of his investment in order to offset the speculative nature of his investment.

Fourth, in order for a startup company to be able to sell securities, the company must face the expense of fulfilling complicated Federal and State securities registration requirements. Any lessening of these requirements and simplification of the work involved would be of great assistance to a startup company.

That completes our list of recommendations. In closing, let us say that we have been honored to appear before your subcommittee today, and will be happy to answer any questions which you might have. Thank you very much.

Representative BROWN. Mr. Tod and Mr. Roth, thank you very much for your statement.

I want to go into a series of questions with all three of you. Please feel free to break in or comment on any questions directed to other people on the panel.

Mr. Weeks, the output of the steel industry of the United States has been affected as you mentioned by three different things: One is the foreign competition which has reduced the market for you. The other one is the cost factor which you referred to. deploying from requirements for environmental rules. Both of these things have ramifications with reference to the Federal Government, and the third may also have the ramifications with reference to the Federal Government, that is the lack of reinvestment by the steel industry in the modernization of facilities.

Ezra Vogel, in a book, recently says that there are 22 modern steel plants in the world, and 14 are in Japan, while none are in the United States. The statistics that he used relate from 1951 to 1971. To your knowledge, is that an accurate statement, and has the change in tax law that's been passed by the Congress recently, stimulated the prospect for that kind of reinvestment in the steel industry in modernization of steel plants?

Mr. WEEKS. Of course, it's too early for us to see the full benefit of the tax law. Our accountants project what we see as certainly a limited capital not only for Republic. but for the entire steel industry has been a deterrent in the modernization and expansion of steel in this country in contrast to the Japanese steel industry. Certainly our mills are not as modern as the Japanese mills by virtue of their entrance into the steel industry after the Second World War, but probably more importantly, the different philosophy of their government and the capital structure available in the Japanese economy as opposed to the U.S. economy.

Mr. POLICINSKI. Mr. Brown had to leave momentarily to take a call on the Marathon-Mobil matter from Washington. If you don't mind, I would like to just ask a few questions to fill time.

Mr. WEEKS. Go right ahead.

Mr. PREMUS. I'd like to raise a question at this time for Mr. Tod and Mr. Roth concerning something that Mr. Weeks testified on. Mr. Weeks mentioned that multistructured levels of government in this region have created problems of cooperation in getting the job done.

I was wondering if you had an experience with this when you were developing your two companies, McDonald Steel and Commuter Aircraft, and if you would relate that experience?

Mr. TOD. I think I mentioned in my statement the difficulty we had with the HUD/UDAG grant with the CAC plant when both Youngs-

town and Warren were vying for it. I think you will recall Youngstown, at that particular time, wasn't eligible, and Warren got the grant. That did cause a problem, and certainly, Mr. Weeks said, to be resolved to make it easier, I think it would be helpful for industry in the area, and actually, the areas have grown so close together, really, that it's hard to differentiate sometimes which area you are really in.

Mr. PREMUS. How would you account for this type of intergovernmental complication?

Mr. ROTH. This actually is a very basic problem that we have. The airport at which the Commuter Aircraft Corp. is being built is owned by the city of Youngstown, but it's located in Trumbull County. So by building the plant over in Trumbull County, they are going to receive the tax benefits, but the airport itself is being maintained by the city of Youngstown.

Youngstown felt, and perhaps justifiably so, that they were the owner of the property. That's who we bought the property from, so they should be the recipient of the HUD/UDAG $3.4 million grant. Unfortunately, the city of Youngstown lost its qualification of HUD loans because of a completely unrelated problem.

Therefore, the city of Warren picked up the ball and they were eligible, and they received the money, and since the money went to the city of Warren, the city of Warren is lending the money to CAC. Our payments will go to the city of Warren, which they will now use for bringing in other new industry.

So there is really a competitive problem there, and I agree very strongly with Mr. Weeks that if it could be more of a situation of the money coming to an area without worrying about which governmental body was going to receive it at the local level, it would have made our job much easier.

Mr. POLICINSKI. Did you have a followup?

Mr. PREMUS. I was going to ask, just as a followup, some communities in Ohio and around the country have been talking about tax base sharing as a way of playing down this competitive feeling. Is this being considered in this region as a viable mechanism for getting the type of cooperation you need?

Mr. WEEKS. I'm not aware of a movement at this time in the valley.

Mr. ROTH. I haven't heard of any such movement.

Mr. POLICINSKI. Again, on the area—the problems with the area, how the area has responded.

You mentioned to reduce the risk to the lenders, you went out and tried to get more banks involved in the loans to CAC.

How many banks are involved, and generally, where are they located? Are the local banks involved?

Mr. TOD. All local banks—there are 10 banks involved. Some from Sharon, several Pennsylvania banks, Warren, Youngstown, all the area banks.

Mr. POLICINSKI. From Cleveland?

Mr. TOD. No Cleveland banks.

Mr. POLICINSKI. Akron?

Mr. TOD. None from Akron. There is a reason for that. We did approach some out-of-town banks, but the out-of-town banks took the position, and I think rightfully so, that they would come in only after they saw plenty of evidence that all the local banks were involved.

We dealt specifically with a Pittsburgh bank that wanted to come in, but their final decision was that they would not come in unless they could see that all of the local banks were involved. They were not going to come in and pick up a local project.

After the local banks all got involved, we didn't need the Pittsburgh bank.

Mr. POLICINSKI. This is something that we found in other hearings in other cities. The same type of responses from regional bankers, that they'll get involved in a project only after the local bankers have been involved, and though they haven't—you didn't need them once you got the appropriate funds for CAC, I think it makes for a more fertile climate for further investments down the road, that other regions or banks in the region—I guess is the best way to put that—will admit.

Do you agree with that?

Mr. ROTH. Yes.

Representative BROWN. Gentlemen, I apologize for the interruption. We're in the process, in Washington, of negotiating legislation that we are trying to pass before Congress adjourns on Wednesday and Thursday, on the Mobil-Marathon offer. I have some legislation in that area that's been before the Congress now for 1 month, and the typical way the Congress operates, now everybody decides it's a good idea to be passive, and since it's my legislation, I have been involved in negotiations long distance. I apologize for being called away.

If I repeat myself, you can stop me or repeat your questions.

With reference to financial institutions, in the investments that you have made in the new ventures, and I found your recommendations pretty stimulating in that regard, one of the things that makes for conservative financial institutions, I assume, is that in a State like Ohio, where they have been used to dealing with blue chip companies like United States Steel and General Motors, the industrial base of the community, that they didn't think in terms as often, particularly in larger communities as Youngstown, of small businesses and new venture operations.

We may change that attitude now, given the track record of General Motors in terms of investment or mainly that they're suffering, they may have to look someplace else for their investment portfolio.

As I understand the results of that situation, it is that many of them are not looking at new ventures, but are looking at Federal notes, Treasury notes, and other sorts of sure things. Business investments, particularly in the highly inflated economy of high returns on such investments.

Are you aware, any of you, of basic limitations in either State or Federal law that encourage companies not to invest in—not companies, but institutions—not to invest in high-risk new company undertakings? I have in mind the SEC rules about prudent man investment. I have in mind the question of whether or not there are limitations on bank reserves or portfolios that require them to invest or encouraged them, induced them, to invest in, say, a Republic Steel venture which has the same objective socially as the venture which has been undertaken by Torent Corp., that is the vision of jobs in a community that has sustained major job losses.

Mr. ROTH. If I may address that, Congressman. As I understand the prudent man rule, we are now referring to the investment of trust assets rather than to bank loans themselves.

Representative BROWN. But the prudent man rule also applies to major corporations?

Mr. ROTH. If I may, let's take a——

Representative BROWN. I assume it applies to management of bank portfolios?

Mr. ROTH. Let's take a look, if we may, at a typical trust department in a bank in the Greater Youngstown-Warren area. That bank may be holding $200 million in its trust funds, and these are trust funds that were placed in trust with the bank by people who accumulated their wealth in the Youngstown-Warren area. If they didn't, they would not have used the banks in this area.

Now, a person passes away and they leave an estate, a substantial estate, and they appoint a local bank as executor, and there is no question that that bank has to use every great discretion and be very conservative in the investment of those funds, but it's my understanding of the so-called prudent man rule that up to 5 percent of the total fund could be used in a more venturesome type investment without being in violation of the prudent man rule.

As a lawyer who has created many trusts for my own clients, I think I am aware of the fact that most of these people would have agreed that a very small percentage of their trust funds could be used in this type of investment. If you take just one banking institution's trust department, and take 5 percent of a $200 million fund, you have $40 million available for investment in the local area.

What we are driving at is the hope that trust departments and banks in depressed areas would seize upon this opportunity of using a very small percentage of the funds that are being handled in their trust departments for investment in the local community to benefit the families, in the long run, of the very people who passed away and left their funds in trust.

Representative BROWN. The same application also occurs to me to be true of retirement funds for steelworkers or any union trust fund, or the United States Steel or Republic Steel Retirement Account for its employees; is that not correct?

Mr. WEEKS. As far as I know.

Representative BROWN. In your view, has that prudent man 5 percent rule been eliminated in the Mahoning Valley area?

Mr. TOD. It just hasn't been used.

Representative BROWN. Well, that's my question. Is the 5 percent not being used in venture capital efforts at all?

Mr. ROTH. That is correct. It is not, with the exception of one union fund that did invest the sum of $50,000 in the CAC project, and that I might say was done as I understand it, they had a meeting of the membership of the union, and it was the feeling of the membership that they had very well better take some of the funds out of their pension fund and reinvest in a local project that would put people back to work, but we approached a number of other large charitable or trust funds and foundations.

They were all very frightened of the idea of putting any money into a venture capital situation, and looking at their portfolios, some

of them did state, we do not have even 1 percent of our money in anything that would benefit the local area in terms of the creation of new jobs.

Representative BROWN. Would you have any rough average, or did they tell you what their rough average of investment in such venture capital undertakings might have been?

Mr. TOD. From our indications, it was very small, if at all.

Representative BROWN. So you don't think that the application of the rule necessarily in a legal sense, is limiting? It's the application of the rule in a practical sense——

Mr. TOD. Right.

Representative BROWN [continuing]. Whether or not it is a practice of the trust funds and retirement accounts and so forth that have been invested?

Mr. TOD. Yes.

Representative BROWN. Do you know of any State or Federal bank portfolio requirements, in terms of their reserves, that would be limited?

Mr. TOD. I don't think there are any. Most of the banks are large enough that there wouldn't be any restrictions.

Representative BROWN. I wanted to continue the line of questioning that we were on, if I could. Mr. Weeks, about the techniques that you have undertaken, if we can assume that the tax laws with reference to depreciation are sufficiently encouraging for the steel industry to make investments and modernization, are the steel companies likely to locate the modernization facilities in existing locations or build new facilities in other locations for, well, for whatever reason? Do you have a judgment on that?

Mr. WEEKS. Well, of course local transportation costs in the valley are a deterrent to good operating revenues for steel companies operating here, as against one operating on a lake or deep water port. But as the tax structure changes and the capital becomes available, I feel the first move that all steel will make will be to modernize the existing facilities.

We are faced not only in meeting the requirements of the American Government and the American economy, but we are totally in a world economy, and as the world economy evolves, the Third World countries are coming into the steel business very strongly. We've got to meet that competition and we've got to do it with prudent capital investment, and it's going to be limited for some time to upgrading existing steel facilities.

Representative BROWN. Before new steel facilities are built?

Mr. WEEKS. Before new facilities are built.

Representative BROWN. You wouldn't speculate on where new facilities would be built? Does the old coal, iron ore transportation of the lakes——

Mr. WEEKS. The lake transportation is——

Representative BROWN [continuing]. Makes it still all add up for the industry in this area?

Mr. WEEKS. The amount of money that we have had to spend in the valley for material handling equipment to be anywhere near competitive with the deep water ports has been a big part of our in-

vestment. We just completed an $18 million investment just to allow us to handle unit trains coming into the valley.

Representative BROWN. You gave the figures on your investment on environmental pollution for your plant. Could you give me the total sales of that plant? Are you free to do that?

Mr. WEEKS. The total sales, I would prefer to check the records before I gave you that.

Representative BROWN. If you would, for the record, I would like to make a comparison of what the costs are of the environmental requirements in connection with the plant.

Let me just ask a broader question. I have asked this of other steel executives. In your judgment, can the American steel industry ever British steel, French and so forth, and so forth. Today, the rules of steel, of Germany or Japan?

Mr. WEEKS. There is no doubt in my mind that the American steel industry has the talent and technological know-how to be again, a very prominent factor in the world steel market, but we've all got to play the same ball game with the same rules. We can't compete with government supported, government mandated and social programs that are allowing the steel that we're competing with, to be financed and developed with government funds entirely. Such as the British steel, French and so forth, and so forth. Today, the rules of the game are not the same.

Representative BROWN. Most of those steel companies or competitive steel sources abroad are monopoly ventures with a national interest?

Mr. WEEKS. Right.

Representative BROWN. And the steel industry in the United States is still——

Mr. WEEKS. Still publicly owned.

Representative BROWN [continuing]. Publicly owned and antitrust enforced?

Mr. WEEKS. Right

Representative BROWN. There has been some assistance given to the steel industry in the stretchout amendments in the Congress in the trigger price mechanism, tax breaks for reinvestment, and I have been a little distressed that at least one company has decided to take those advantages and invest in other lines of business, which are probably more profitable, and may have been induced by this same prudent-man rule, because it's a publicly held company. But it's your firm belief that the steel industry will stay in the steel business?

Mr. WEEKS. It's my firm belief that Republic Steel will stay in the steel business. That's the only one I can answer for, but that's been our philosophy from our conception.

Representative BROWN. I want to go back in your statement, Mr. Roth, and Mr. Tod, to several of the studies. Without belaboring it, to give you a feel of what I'm asking, you made reference to market surveys, specific design efforts. There were a couple of other comments about feasibility studies, that kind of requirement.

Based on the facts that people wanted to invest in your company, perhaps primarily—I don't say first or primarily—but at least significantly because it was an opportunity to make money, which is what most investors are looking for, and in spite of the patriotism and try-

ing to help out a local community in distress, were those studies conducted by institutional organizations, and I don't necessarily ask you to reveal where you turned for those studies, but was the interest structure in the area as such that you got sufficient help in the marketing studies, the feasibility studies, or did you have to go outside the area to do that? Would it have helped had those facilities been available in the area? I'm making the presumption, that may not be correct.

Mr. TOD. Well, in the situation with CAC, outside people, A.T. Kerney & Co. did the original feasibility study. So every time we go to a new organization outside the valley, a large organization, they wanted their own feasibility study done. But I think in the case of CAC, there must have been about four or five feasibility studies done by top engineering firms, consulting firms, in the country, and I'm very happy to say that they all came through with a positive report on the whole program. We were very encouraged in that respect.

In the case of McDonald Steel, we didn't have Wing United do the feasibility on the mills, whether or not how modern it actually was. The mill itself was 50 years old. They came to the conclusion that if you were to build a new shape mill today, that you could build it almost exactly with the same type of equipment, roll standards and so forth.

We were encouraged from that standpoint, and also Dave McBride and Cushwa Center, and the State university helped out. So I would say McDonald Steel feasibility reports were done locally, where CAC was done on a national basis.

Representative BROWN. The CAC case, you were literally started up—I don't want to use the term "blue sky," but with a blank blackboard, because that was as a result of the change in Federal law that opened the market for the commander aircraft concept. The real question was, I gather, not only was this market going to develop for commuter airplanes, short haul airplanes, but you mentioned the size or the rather subtle difference between a 44-passenger airplane and a 50-passenger airplane as significant to that market decision and the decision to make the investment in commander aircraft and so forth.

I assume that if you are making a product in the Mahoning Valley for a national market or a worldwide market, it really doesn't make much difference where your feasibility study is done or where your market survey study is done, but if you're looking at the valley with reference to whether or not it will provide the employees to serve that plant adequately, that may direct you to a local outfit to do the feasibility work. Is that logical?

Mr. TOD. I think so.

Representative BROWN. And you did use local facilities in the Cushwa effort——

Mr. TOD. Right.

Representative BROWN [continuing]. In that regard?

Mr. TOD. Yes.

Representative BROWN. I want to ask you about the public subsidies. You mentioned the UDAG grant and the—I guess that was the limit of it.

Mr. ROTH. No, the EDA grant that was a guarantee from EDA and a grant from HUD.

Representative BROWN. And the Ohio development financing?

Mr. ROTH. That's a guarantee.

Representative BROWN. Can you place a significance on each of these parts of the efforts?

Mr. ROTH. With the CAC program, as you mentioned, we were really starting from scratch, and because of that we were in a situation in which every phase of it was necessary or the other phases would fail. So that the significance of the grant to the city of Warren by HUD/UDAG was just as important to us as the obtaining of the EDA 90 percent guarantee on the $38 million working capital loan, and by the same token, I think if we had failed to receive the 40 percent guarantee from the State of Ohio, the whole deck of cards could have fallen apart.

There were many times where we really wondered if we were going to succeed in bringing all of these facets together. So they were all important. The loss of any one could have made the difference.

Representative BROWN. Do you see if there's been a proposal at the Federal level to terminate the UDAG program, and also to terminate or severely limit—perhaps it's overstating the UDAG program—to severely limit the EDA grant program. Do you want to make a comment or recommendation on that consideration? What would be the area of substitution if those programs were not available?

Mr. TOD. In connection with the EDA loan, taking down the loan would only be triggered after CAC had raised another $10 million in equity and would have had bona fide orders for 25 planes, the Government is protecting those funds by making CAC perform. They are not just loaning us the money.

In a depressed area, we really have to perform to take down the loan. I think there is no question that EDA loan has been very helpful in this area. I know of several other projects that we were involved in, an EDA loan would make the whole difference between the project going forward or not going forward.

Representative BROWN. What's the order of call of all of these investments? The banks first, I assume.

Mr. TOD. Yes, the building on the construction loan, the banks have first mortgage.

Representative BROWN. Then after that you have to meet that obligation, then after that, the EDA?

Mr. TOD. No; the EDA won't have any call. It would be the State, the 40-percent guarantee with the State.

Mr. ROTH. The local banks hold the first mortgage on the real estate. The State of Ohio, as guarantor, would have a second lien to the extent of their actual loss. The EDA is not protected by the real estate. That is a working capital loan and they would have a lien on the equipment and receivables. This is how I recall it without my records.

Representative BROWN. Is there another call from the UDAG?

Mr. ROTH. I'm sorry. I missed the city of Warren.

Representative BROWN. That would be the UDAG obligation?

Mr. ROTH. The city of Warren is in the second spot behind the local banks. The local banks have the first mortgage, and then the city of Warren, because that was a subordinated loan. It was quite a complicated structure.

Representative BROWN. Well, I admire you more for taking it up. I have to say in my own educational background, there's a little bit of business training, but the worst, of course, was finance. So I admire you for it.

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I have a series of other questions, but I think because of the way the time is running, we'll probably have to ask some of those questions by mail because we have other people to testify.

Mr. ROTH. I wonder if I could make one other statement, Congressman Brown?

Representative BROWN. Please do.

Mr. ROTH. It's been a pleasure to discuss the CAC project because, in our opinion, it is a case study of governmental and industry forces working together for high potential economic development. Together, much has already been done to start CAC on the road to success. However, much remains to be done.

The State of Ohio, the city of Warren, and the Youngstown community have made a $17 million investment in CAC, an investment that I think, and I know they think, makes real sense. When CAC reaches full production it will directly employ approximately 1,600 workers in high pay, high skill jobs, but more than that, CAC brings a new kind of industry to an area whose traditional industries have been seriously impacted by the inroads of foreign competition.

Still, like those industries, aircraft manufacturing is a high value added activity, and thus it can help maintain the area's substantial economic contribution to the Nation. Further, as a new high technology, high skill industry, it can stand as a clear beacon of what can be done in the State of Ohio and in the Northeast, Midwest industrial crescent as a whole.

It is a harbinger of the reindustrialization of America. That is what CAC does for Youngstown, but Youngstown and Ohio do a lot for CAC as well.

Ohio is a natural place for aircraft manufacturing. A great many of the components that go into modern aircraft are fabricated in the industrial Midwest. The area's recent decline means that first-rate skilled labor is readily available.

We are presently in the postderegulation era of commercial aviation, and as you and your colleagues know, after deregulation, the watchword becomes efficiency. That's what CAC and the commuter aviation are all about, and what aircraft manufacture in Ohio and this region are all about.

In this intensely creative period in aviation, we come back to Ohio, the real birthplace of aviation, the home of the Wright brothers, not to mention Eddie Rickenbacher, John Glenn, and others.

Ohio is committed to providing the right environment for quality industry. However, CAC will be a boon to more than just to Youngstown and the region. It will be a boon to the Nation. CAC will provide precisely the kind of airplane we will need today in the postderegulation era. Not only does it provide a first class level of amenities as befits an American airplane, but it will be clean, quiet, efficient, remarkably fast, and in our opinion, exactly the right size. It is a size that can make the commuter service work and that is indispensable to our airlines and to our Nation.

We all know how important large airports and long distance airline services are. For example, the Boston Aviation Council determined that Logan Airport is worth more than $1 billion each year to the city of Boston, but smaller airports and commuter services are equally crucial. Commerce Department studies reveal that proximity

to a commercial airport is the single most reliable indicator for predicting rapid future economic growth in small- and medium-size communities.

CAC also fills an important void in our potential for aircraft exports while providing an alternative to imports. I think it is time that all of us in the United States face the real facts of a world economy.

The Midwest is not ultimately competing with the west coast or with the Sun Belt. America is competing with Japan, Europe, and the world, and CAC is a good example of that principal. CAC's current competition comes from Canada, France, Britain, and Spain. There is no other airplane like this to be built in the United States. Indeed, the Pentagon, which has needed an airplane like CAC's, has been unable to fill the order.

Today, we are facing an enormous challenge to America's predominance in aviation manufacturing.

Lockheed's recent decision to phase out the L–1011 was linked in part to competition from Europe. Over the years, the aircraft industry has accounted for the U.S. single busiest industrial export. When we sell planes overseas, our balance of payments is helped not only initially, but for years to come as a stream of replacement parts and services worth several times the cost of the aircraft, pours out of the country.

CAC will provide a plane that is right for the import market. That is right bolstering American trade. The Federal Government has assisted CAC along the road to making a contribution to our national economy.

With the EDA $38 million loan guarantee providing for working capital for CAC operations, this will assist CAC to make it happen for computer aviation, for Youngstown and for the United States.

Of course, business subsidies have a bad name in this country, and rightfully so. The airline industry, through mail subsidies and route regulations have long enjoyed Government dole. The basic wisdom of airline deregulation is that mature industries do not need, and should not receive, subsidies from the Government, but there is a place for cooperation between business and Government. Our Nation is learning, perhaps the hard way, an important lesson in the example of Japan.

In Japan, Government and business, but particularly developing businesses, work closely together. The Japanese make hard decisions about which industries really need governmental assistance and which of those have the real payoff potential.

Targeting: Targeting toward emerging industry. That's the name of the game. America has greatly benefited from its aviation leadership. It can benefit again from this new generation of aircraft.

I would like to emphasize that the next major obstacle that CAC faces is being able to line up financing for the purchasers of the airplane. Although we have come a long way, such financing is a life or death issue. The airline industry is in a rapid transition from a regulated environment. A host of small commuter carriers, true entrepreneurs, have sprung up and are competing against carriers who grew and matured under the Government umbrella.

These commuter carriers are the hope of the small- and medium-size communities, but most of these airlines are cash poor and credit lean. Still, they need new, highly efficient airplanes. For example, analysts agree that the reason that Air New England recently failed was because they lacked the right airplane, an efficient commuter size aircraft.

The FAA has a loan guarantee program for aircraft purchases which could enormously assist these carriers, the likely buyers of our airplane. However, for fiscal year 1982, only $100 million in loan guarantees can be expended. To put that in perspective, 1 year's output for CAC is expected to be between $300 and $400 million. If this domestic market for commuter aircraft can be tapped, and the key to that is financing, a strong export market will be available.

Thus, what needs to be done is to expand and strengthen the FAA loan guarantee, but not haphazardly. First of all, it should be restricted to purchases of American built airplanes. Second, it should be targeted to commuter carriers where the assistance is justified and where it is necessary as a transition out of the economic artificiality of a regulated environment. Third, guarantees should apply as progress payments are made to the manufacturer.

The present FAA practice of withholding guarantees until all purchaser payments are made and the plane is delivered favors the large carriers over the small carriers and the large established manufacturers over new competitors such as CAC.

Report language which accompanies a House and Senate passed appropriations bill for the Transportation Department, recommends that the FAA limit guarantees to American built airplanes, and it permits these guarantees to attach before final delivery of the airplane. We appreciate that congressional assistance, and we hope the FAA will go along. Particularly in these budget slashing days, targeting Government assistance is the way to go. First of all, let's concentrate Government assistance on American manufacturers and let's put it where the payoff exists.

We have witnessed the astonishing economic growth of Japan. On the other hand, Great Britain, pursuing a policy of pouring national resources into propping up tottering industries has become one of the poorest developed countries in the world. Government assistance to industry can and should be judicious. It's the approach that the State of Ohio has taken.

CAC was carefully picked from a group of, may I modestly say, less promising contenders, for State support. It is also the approach that the Federal Government should take. Manufacturing of commuter aircraft is an extremely promising industry with superb potential for our national economy. The next necessary step for commuter airlines, and thus for manufacturing, is an improved program of Federal guarantees for the commuter aircraft buyers.

Representative BROWN. Mr. Roth, I appreciate your statement. Let me just say this.

I think that it's also possible that in an existing company, an old line company, if I can use that term for Republic, can undertake that same kind of revitalization, and obviously, it has been, I shouldn't say a side interest of yours, but from what you described, it seems to take an awful lot of time to get a new venture underway as opposed to

sustaining an old one, to maintain a traditional—and it's been an interest of yours to undertake the traditional industry or the substance of a traditional industry in the McDonald Steel example, and that brings me to a final comment to make to the three of you.

There was an interesting article in the July–August 1980 issue of the Harvard Business Review in which the authors addressed themselves to whether or not we are managing ourselves in this country into decline, and the point was made that, unfortunately, many traditional companies in this country are managed by lawyers and finance people—no insult intended, Mr. Roth—I'm not a lawyer, so it's free for me to say these things. But the point was that we were operating on a cowbird philosophy of business management, that was when your own product tends to deteriorate and die, rather than develop a new product or new undertaking or do research that would improve the product that you are producing, or improve the capacity to produce, so that you can be competitive. There was a tendency of the companies to say, "Well, to hell with that. We'll go and buy another company or buy another product line that is still successful because we have the resources and move into that area." The cowbird, being a bird that moves from its own nest into somebody else's nest and doesn't take time to build its own nest.

The problem with that is, that we exhaust American competitiveness for lack of American entrepreneurship, and certainly in the case of Republic's efforts to revive its facilities in Warren, and to your own efforts to revive the McDonald facilities and to build a new industry here in Youngstown to replace that industry which has obviously been lost.

There is clearly that entrepreneurial undertaking and venture into new and untried fields. Because of Federal deregulation, I want to emphasize that it's grounded on the Federal Government loosening up or lifting a dead hand off of an industry. Maybe part of the problem of steel is because the Government has put too much of a hand on that industry in various ways, but if we can encourage that—I have no hesitation as a matter of principle, in seeing that we focus those assistance areas where Government can be of help, into these new entrepreneurial ventures. It seems to me that, traditionally, that's what we want to reward in this country.

There are several other questions I want to ask you. One is an accounting procedure for tax purposes that I'm fascinated with, and that would be a depreciation schedule set by the entrepreneur rather than by the Government so that you might wish to write off everything after the fifth year, or write it off in the first year, if you happen to be successful in the first year, which would give you a chance—and there is no loss to the Government in that in terms of tax returns—it would give you a chance to set your own entrepreneurial depreciation schedule. We have been radical enough to propose that in legislation, but we have not gotten very many takers from the rest of Congress on this issue because even Members of Congress—maybe I should say particularly Members of Congress—tend to be traditional in their viewpoints about things. But there are some ideas that might be stimulating to entrepreneurship in that tax field that hasn't even been attempted by this administration.

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We would like to ask more questions in those areas, but we're going to have to do it by writing, I'm sorry to say, because my staff is kicking me under the table and telling me we are overrunning our time. So I appreciate your testimony. If you have anything else any of you want to say, go ahead as long as it's brief.

Mr. WEEKS. I appreciate the opportunity to appear before you.

Mr. ROTH. Thank you, very much.

Mr. TOD. Thank you, Congressman.

Representative BROWN. Our second witness panel is Bernhard G. Stamm, assistant deputy director, Economic Development Division of the Department of Economic and Community Development; Mr. David L. McBride of the Cushwa Center for Industrial Development; and Mr. George E. Wilson, project coordinator of Castlo.

I might say that we have been asked why certain witnesses have been invited to testify, specifically, by the staff of the Joint Economic Committee. The reason we have is to try to bring together some concepts that are, if not unique in Youngstown, perhaps at least unique in the State of Ohio, or at least unique in some other parts of the country. The Castlo—I guess this is like editing a newspaper. What you put in a newspaper is the decision of the editor, but the Castlo operation is a somewhat unique operation, we think, at least in our observance of what other communities have tried to do in that it's a rather smaller suburban unit trying to do something specific for itself, and many other communities have what has been a worthy venture, the Medvec development.

We thought we would like to find out about the unique Castlo process. Also, the Cushwa Center has some unique qualities to it as we understand. Obviously, the commuter aircraft approach is relatively new. So we do appreciate you being here as a panel and we will hear from you in the order that you are listed.

Mr. Stamm, we'll let you start.

STATEMENT OF BERNHARD G. STAMM, ASSISTANT DEPUTY DIRECTOR, ECONOMIC DEVELOPMENT DIVISION, OHIO DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

Mr. STAMM. Congressman Brown, gentlemen, I appreciate the opportunity to share with you today Ohio's successful experience in economic development; how we do it, and why we think we have the finest economic development program in the Nation. Time being limited, I will be brief and to the point. Consequently, I do not think it necessary to belabor the current dismal economic conditions or the competition from the Sun Belt and foreign countries. Instead, I would like to demonstrate how the State of Ohio has managed to establish a remarkable record in economic development in the past few years.

Yes, in spite of the recent economic downturn, the State of Ohio has fared well in industrial development. Our record is, indeed, impressive. Major industrial development projects concluded by the Rhodes administration the last several years will be coming fully on line during 1982 and 1983. Projects include the Honda automobile plant, near Marysville; the Miller Brewing Co. plant at Trenton; the AMC-Jeep plant expansion in Toledo; the General Motors diesel

engine and truck plant in Dayton; the Commuter Aircraft Corp. plant near Youngstown; the Fujitec Ltd. elevator plant in Lebanon; and Jeno's in Wellston. Total new jobs, 15,150. Also announced recently was a new $500 million steel mill to be built by the Timken Co. in Canton employing 800. All of these projects received major State and local incentives through recently enacted legislative programs which I will discuss later.

Our record is equally impressive in the area of jobs created from small companies. Indeed, we pursue the search for small industry as vigorously as the chase for large plants. Since 1977, 145 companies employing less than 400 employees have located or expanded in Ohio and created some 11,000 new jobs.

Ohio boasts certain assets, such as central market location, excellent manpower, a superb transportation system, to name but a few. Obviously, these assets play a vital role in Ohio's success story. The other part is the attractive business climate we have been cultivating vigorously over the years. Yes, we do believe that profit is not a dirty word in Ohio. Business climate to us means creating the conditions and incentives which, when added to the assets I just mentioned, make Ohio attractive to businesses looking for a new home or to Ohio industries thinking about expansion.

I would like to briefly discuss these conditions and incentives with you now. Let me start by making a simplistic statement. We believe that economic development in its purest and most successful form is done at the local level. We believe that if an industry does not feel wanted in a community, all the financial incentives and prodding by State government will not convince an industry to locate or expand. This is as important with existing industries as it is with new ones. My boss, Director Duerk, probably put it best when he once said, "Treat the industry you already have as if it had just moved in yesterday." Indeed, we have found that a noncooperating community makes it nearly impossible for us to play a meaningful role in economic development.

In the absence of local leadership and cooperation, even the best incentive programs turn into mere empty words, which leads me to one of the key functions DECD performs, that is assisting local communities in setting up economic development programs and organizations. Our assistance covers the gamut from setting development goals, to selling the community, to structuring and training receiving teams and closings on a project. We have found that the better local communities do their job, the better we can help them become successful in economic development. It is through alliance formed between the Development Department and local communities that allows us to be most effective as a team for the good of the community as well as the State of Ohio.

But as local communities must rely on their political and civic leaders if they want to be successful, so does State government. The State of Ohio has been blessed in recent years with administrative and legislative leaders who understand the development process. In my personal opinion, not enough can be said about Ohio's champion among the many outstanding industrial developers, Governor Rhodes. It was Governor Rhodes' foresight and courage that led to the development of the many new and innovative strategies and legislative programs

that have become the backbone of the State's economic development effort.

One such innovative program involves the Ohio Office of Small Business Assistance. Established in 1977 within the development department, the office of small business assistance was set up primarily to act as a communications link between small business owners and State and Federal agencies in order to help solve business-related problems. Recent seminars on such complex Federal programs as trade adjustment assistance and Federal procurement set-aside funding are examples of the variety of services this office provides.

The recent debate over the usefulness of granting tax abatements to industries has, in our opinion, been clearly won by its proponents. Ohio's tax abatement laws have, indeed, become major workhorses in the tough battle for jobs. Here, again, the record speaks for itself.

Another very successful program is Ohio's job training program for industry. This program just received a $7 million appropriation from the general assembly. As a result of a joint program between DECD and the Ohio Department of Education, the State of Ohio provides various forms of assistance to business and industry to help with the cost, the facilities and the expertise it takes to field an effective work force. The present level of funding will go a long way in assisting Ohio's industries in training and retraining their labor force to meet the challenges brought about by the new age of technology.

The recent passage of Senate bill 313, the Economic Development Financing Act, marks the beginning of a promising new business assistance program in Ohio. Under this program, the State will use liquor profits to back Government bonds which will be used to make grants, direct loans and guarantee loans for expansion and modernization of qualifying businesses located in economic needs areas in Ohio. This legislation has been upheld as constitutional by the Ohio Supreme Court and we are currently awaiting a final determination by the IRS as to whether the interest on the bonds will be considered tax free. Once this determination is made, we are convinced that this program will become yet another powerful tool in the State's industrial retention and expansion effort.

The Economic Development Financing Act is supplemented by a similar low interest direct loan and loan guarantee program administered by the Ohio Development Financing Commission. This program, which is geared toward high technology and growth industries, has produced 9,000 jobs in the 3 years of its existence.

Another key to success in industrial development is based on the strong commitment and cooperation between the public and private sector in Ohio. Working in cooperation with public and private development groups and agencies, DECD's Office of Industrial Development performs three basic functions: One, keeping existing firms in Ohio; two, retaining the expansions of existing firms in Ohio; and three, bringing new firms into Ohio.

The Office of Industrial Development functions, in confidence, as a neutral middleman or broker in this process. We do this by working with and through a network of local and regional private and semi-public development agencies, the 30-member Ohio Economic Development Council. The development council is composed of representatives

from Ohio's major chambers of commerce, railroads, utilities, and regional private development agencies. These representatives know their communities and know their sites so well that we at the State level do not try to keep up with site availability in Ohio.

The State's goal is to locate the firm in Ohio in order to provide more jobs; the firm's goal is to find the most profitable site in Ohio. With that as a basis of mutual understanding, the economic development council members, in confidence, present the prospect with the best sites in their service areas that most closely match the prospect's requirements. Site and community screening is then done in an efficient, confidential manner, with a minimum of unnecessary activity and wasted time.

The Ohio Economic Development Council then provides the confidential, cooperative link between the public and private industry, with the State—through the industrial development office—serving as the coordinating, neutral middleman.

Getting new firms into Ohio is generally seen as the most spectacular of the activities by the industrial development office, but its two other functions: Keeping existing firms in Ohio, and retaining the expansions by existing firms account for the bulk of our day-to-day activities, and for the bulk of Ohio's industrial growth. Home industries are important to Ohio.

Let me turn now to a subject of major concern to the State of Ohio, the current debate over the use and usefulness of industrial development revenue bonds. To give you an idea of the magnitude and importance of IDRB's to Ohio, since 1977, 1,700 IDRB's have been issued amounting to a total of $2.1 billion. This form of financing has been the single most effective job creation tool in recent years. Loss of the program would be a severe strike against economic development in Ohio. In spite of all the new financing programs available to us, we need the IDRB program more than ever.

Other recent legislatively enacted programs include the establishment of a minority business development division with its attendant financing programs and inner city tax incentive legislation providing for local and State tax abatement to industries locating or expanding in inner cities. Currently under consideration by the Ohio General Assembly is a bill that would provide for venture capital financing to high technology industries.

Other steps are being taken to respond to the recent high technology wave that is ringing in a new industrial revolution. Governor Rhodes just recently appointed a committee to set up a statewide high technology information transfer system between the State's universities and research organizations and industry. We are also restructuring our existing retention and expansion program to fully respond to the dramatically changing needs of Ohio's industries. But most important, we will continue doing what we've been doing best, to do everything in our power in cooperation with Ohio's local communities and the private sector to constantly improve the business climate in Ohio so that Ohio's businesses and industries may continue to be profitable. Thank you.

Representative BROWN. Thank you, Mr. Stamm. Our next presenter would be Mr. David McBride, of the Cushwa Center.

STATEMENT OF DAVID L. McBRIDE, DIRECTOR, THE CHARLES B. CUSHWA, JR., CENTER FOR INDUSTRIAL DEVELOPMENT, YOUNGSTOWN STATE UNIVERSITY

Mr. McBRIDE. Thank you.

By way of introduction, let me explain to the subcommittee that since June 1979, I have been the director of the Cushwa Center for Industrial Development at Youngstown State University. Previous to assuming that post, I was employed in various managerial positions over a period of 17 years with the Youngstown Sheet & Tube Co. before it was acquired by the Jones & Laughlin Steel Co., My last position with Youngstown Sheet & Tube was corporate director of production planning and control. I am a graduate of the Massachusetts Institute of Technology with bachelor of science and doctor of science degrees in metallurgy, and I hold membership in various national professional societies concerned with the metals industry and with production planning and inventory control. Locally, I currently serve on the board of trustees of the Mahoning Valley Economic Development Corp.; the board of directors of the Mahoning County Private Industry Council; and the board of directors, executive committee, and industrial park management committee of the CASTLO Community Improvement Corp. I am also a director of McDonald Steel Corp., which you heard Mr. Tod describing a few minutes ago.

I have come today to acquaint the subcommittee with the activities of the Cushwa Center for Industrial Development at Youngstown State University; primarily, because we believe this center is an example of how concerned local citizens have utilized existing resources to aid and benefit the local economy, the resource in this case being the facilities and the faculty expertise of Youngstown State University.

The creation of the center is a direct result of the increasing awareness of the need for industrial revitalization in the Greater Youngstown-Warren area. In 1977, about the same time that the first major steel plant closings occurred, various administrators at the University and a number of concerned citizens had been exploring ways in which the University could serve the needs of local business and industry. The steel plant closings gave added urgency and increased impetus to those discussions. Out of those discussions came a proposal for a University-based center through which local entrepreneurs and business managers could obtain help with their business-related problems. This proposal attracted the attention of the management of Commercial Shearing, Inc. and the family of Charles B. Cushwa, Jr., their former president and chairman who had passed away previous to 1977. Through those efforts, a $500,000 private endownment was established in June of 1978, the specific purpose being to create and support the Industrial Development Center which today bears Mr. Cushwa's name. The endowment has now grown to almost $700,000 through the contributions from other individuals, some of them local and some of them outside the area, and from foundations. The income from this fund is the only fiscal support of the Cushwa Center at the present time.

The principal mission of the Cushwa Center is the promotion of job-creating opportunities in the region surrounding the University

and it proposes to do this by assisting local companies in broadening their current production capabilities and by encouraging the establishment of new ventures. Specific objectives include: Assisting local companies in identifying and developing new products and services, and providing guidance in effectively marketing them; strengthening the effectiveness of local management groups through specialized training and technical assistance; guiding the exploration and development of new, local enterprises that can serve local industries with goods and services not presently available; and providing local industry with a permanent channel to the technical and academic resources of the University.

The center serves primarily the industries in five counties that surround the university; three in Ohio and two in Pennsylvania. We are so close to the State line that we also have an involvement over there. And, as I mentioned, it utilizes the faculty and facilities of the University to provide enterprise counseling, enterprise information, and technical assistance to individuals and businesses. In this activity special emphasis is placed on business strategy, planning, marketing, and basic principles of enterprise development which will have a lasting beneficial effect upon the client's enterprise. We try to avoid providing merely band-aid solutions to problems, and of course, we state to our clients right up front that all information discussed with the Cushwa Center staff is considered confidential, and we try to maintain a close contact with all of them over a period sufficient to study the results and progress of their enterprises.

Since June 1979, when the Cushwa Center became a public service department of Youngstown State University, it has provided assistance to more than 100 local entrepreneurs and business managers. This assistance has covered a broad range of needs, from general counseling on business and manufacturing problems to technical information, market surveys, and financial analyses of business operations. Twenty-five of these individuals have been assisted in developing pro forma financial plans or feasibility studies of their proposed ventures, and three of the plans have led to the creation of new local firms. Several other plans show promise, but so far their developers have not yet been able to attract the investment capital needed to implement them.

The Cushwa Center maintains an effective working relationship with other economic and business development organizations in the Youngstown area, including the Mahoning Valley Economic Development Corp., the Youngstown Area Chamber of Commerce, the CASTLO Community Improvement Corp., and the Youngstown and Mahoning County Private Industry Councils. Indeed, I think it's fair to say that these agencies have been most cooperative in helping to inform the business public about the Cushwa Center's services and have proved to be a very useful source of information on the needs of local business and industry. And in recent months, some of these agencies have been referring entrepreneurs to the Cushwa Center for help in developing business plans and feasibility studies. Particularly in areas where those agencies are not able to provide the service.

During the past 2 years, the center also has had an opportunity to evaluate several new products submitted by local entrepreneurs. How-

ever, none of these products have as yet resulted in the establishment of new manufacturing enterprises, partly due to a need for further product development on the part of the entrepreneur to insure an acceptable product and partly due to insufficient evidence that a market for the product could be readily developed. We believe that assisting in the development of new products eventually will become an important activity of the center in its efforts to encourage the revitalization of local industry. But, recognizing the long leadtime needed to develop, manufacture, and market a new product we do not expect this activity to have a major impact in solving the immediate economic problems of the Greater Youngstown-Warren area.

In my prepared statement, which I submitted to the subcommittee in advance of this hearing, I described several circumstances concerned with a number of the projects that the Cushwa Center has provided assistance to. I'm not at liberty, because of the confidentiality of those projects, to mention the names of the firms or the names of the individuals; but let me just briefly, in the interest of time, touch on a couple of these. The prepared statement has perhaps 10 or a dozen of them that we have worked with. I think the subcommittee will find some of them to be of interest.

Back in 1980, in September, we assisted two young women who wished to get into business, a business designed to service the supply needs of local child daycare, nurseries, and preschool centers. We found out from investigation that there was no company in town specifically designed to service the needs of that industry. After helping these women to prepare a number of business plans, examining the feasibility of the project, they took those plans to a Trumbull County bank and were able to obtain financing. They have now opened their business, and did so in April 1981, and at last report, were successfully on track with the business plans which the center helped them prepare.

We have been working with a Mahoning County firm, which repairs high frequency induction coils which are used in metal remelting furnaces. This firm was referred to us— to the Center, by the staff of the Mahoning Valley Economic Development Corp. They—the firm—particularly needed assistance on production problems and cash flow management. We're still working with that firm. Through our efforts, in the early part of this year, they were able to reverse a net loss trend into a net profit in fiscal year 1981. We suggested a number of changes in their practice of controlling work in process and helped them analyze their financial statements. At the present time, the firm is currently running 30 percent ahead of 1981 sales, and are beginning to approach the capability of the plant.

We also provided assistance to a metal furniture refinisher in Columbiana County. He had some problems with his recordkeeping and operating parctices. We made some recommended changes there, and at the present time, he is in the process of implementing those.

We helped a Trumbull County inventor to evaluate plans to market a special bracket for a workman's scaffold.

We assisted, very recently, a plastic extruding firm here in Mahoning County to develop a business plan which would then be used to raise capital through the Mahoning Valley Economic Development

Corp.'s industrial loan fund and through the sale of industrial revenue bonds.

These are some of the things that we have been doing. There are others which are very similar, which I think the subcommittee has access to. I believe the subcommittee can see that the Center's projects have been varied and interesting, and that many have involved assisting entrepreneurs with the development of business plans to determine the capital requirements and economic feasibility of their ventures. Our experience indicates that many entrepreneurs lack certain basic knowledge required to develop in-depth feasibility studies. As it is virtually impossible for an entrepreneur to obtain needed capital without a business plan, we expect that providing this support will continue to be a major part of the Cushwa Center's role in stimulating economic development. In the months ahead, we hope to expand the center's capabilities. Presently under consideration are plans which will permit the establishment of programs structured to meet the specific needs of local entrepreneurs for industrial consultants, product research and development, and market surveys.

I would like to make a few remarks about the potential for economic growth in the Greater Youngstown-Warren region: I think it is fair to say there has been much—perhaps too much—written and said about the steel plant closings and their effect on economic conditions in the Mahoning Valley communities. Certain communities were more immediately and more adversely affected than others; some are only now beginning to feel the pinch of reduced services, the result of a shrinking tax base. They have serious problems and their plight should not be minimized. But those individuals who, out of ignorance or lack of understanding, have portrayed the Mahoning Valley as dying or dead, may have dealt a blow more cruel and more unjustly warranted than any that the plant closings alone could deliver. Their rhetoric has caused a stigma to be attached to the valley which may take a long time to erase. They failed to recognize the basic strengths of the valley—the diversification of its industrial base and the resourcefulness of its people. I think you heard this morning from Mr. Tod and Mr. Roth, an example of that resourcefulness.

I would like to share with you some of the information we developed which points to the diversification of the industry which already exists here and has existed for some time. One of the first tasks I undertook when I assumed the position as director of the Cushwa Center was to investigate the characteristics of the market that the Center was to serve. Using published information from 1979 directories of manufacturing and industrial companies, we learned some interesting facts:

First, in the five counties surrounding the university, the directories listed 1,022 industrial and manufacturing companies——

Representative BROWN. Could you identify those counties?

Mr. MCBRIDE. The five counties are Mahoning County, Trumbull County, and Columbiana County in Ohio; and Mercer and Lawrence Counties in Pennsylvania.

Representative BROWN. So you're not throwing in Akron or Canton?

Mr. MCBRIDE. No. It's the five counties immediately surrounding. To go back, more than 40 percent of these firms we investigated are located in Mahoning County, with 23 percent in Trumbull County, 19 percent in Columbiana County, and 9 percent each in Mercer and

Lawrence Counties in Pennsylvania. Contrary to the long-standing image of the Valley as a steelmaking center, only 9 percent of the companies were identified as primary metal producers. That is, those who actually melt metal.

However, almost 20 percent of the firms were listed as manufacturers of fabricated metal products. That is, they take the solid steel and process it into a rod for some other manufactured product.

Companies producing machinery constituted 17 percent of the total listed companies, and stone, clay, glass, and concrete products accounted for 10 percent.

The balance of the companies represented a diversity of products and services, from printing and publishing, food products, furniture, and apparel to electrical and transportation equipment and high technology products such as instrumentation and cameras.

We expected to find a significant number of firms engaged in fabricating metal products. I must confess I was as surprised as anyone to discover the variety of other products made in the valley. More surprising perhaps was the discovery that more than 58 percent of the companies making these products are small companies, each employing 25 or fewer workers; and another 26 percent are mid-sized companies employing between 26 and 100 people.

I believe the Mahoning Valley has a high potential for continued economic growth provided its citizens concentrate their efforts toward giving it a new identity, capitalizing on the industrial diversification that was always here, but was for so long overshadowed by the so-called steelmaking image.

We, at the Center, are working to try to retain existing viable industries, and support their growth and expansion. And we are also trying to help undo the "doomsday" stigma that's been attached to the valley, so that new companies will be attracted to locate here. I think it needs to be said, though, that the valley may not have seen the end of the plant closures—we have seen a few here in the last 2 weeks. To some extent, they are the natural shaking-out that occurs during any period of economic retrenchment. I would hope that closed plants in the Mahoning Valley will be replaced in time by other businesses better able to withstand the vagaries of economic change.

Thank you very much, Congressman.

[The prepared statement of Mr. McBride, together with attached tables, follows:]

Prepared Statement of David L. McBride

MEMBERS OF THE COMMITTEE:

My name is David L. McBride. Since June 1979, I have been the Director of the Cushwa Center for Industrial Development at Youngstown State University. Previous to assuming this post, I was employed in various managerial positions over a period of 17 years with The Youngstown Sheet and Tube Company before it was acquired by the Jones & Laughlin Steel Company. My last position with Youngstown Sheet and Tube was Corporate Director of Production Planning and Control. I am a graduate of the Massachusetts Institute of Technology with Bachelor of Science and Doctor of Science degrees in Metallurgy and hold membership in various national professional societies concerned with the metals industry and with production planning and inventory control. Locally, I currently serve on the Board of Trustees of the Mahoning Valley Economic Development Corporation; the Board of Directors of the Mahoning County Private Industry Council; and the Board of Directors, Executive Committee, and Industrial Park Management Committee of the CASTLO Community Improvement Corporation. I am also a Director of McDonald Steel Corporation, a newly formed local company which has recently reactivated an idled mill at McDonald, Ohio, to roll special steel shapes.

I understand that the Committee is interested in learning about the current state of the economy of the greater Youngstown-Warren area and of the efforts of its citizens and organizations to stimulate economic development. In this regard,

I am here today to tell the Committee about the activities of the Cushwa Center for Industrial Development at Youngstown State University. The Cushwa Center is one example of how concerned local citizens have utilized existing community resources to aid and benefit the local economy, the resource in this case being the facilities and faculty expertise of Youngstown State University.

The Center is a direct result of an increasing awareness of the need for industrial revitalization in the greater Youngstown-Warren region. In late 1977, about the time of the first major steel plant closing, administrators at the University and several concerned local citizens were exploring ways in which the University could better serve the needs of local business and industry. The steel plant closings gave added urgency and increased impetus to those discussions. Out of them came a proposal for a University-based development center which could serve as a mechanism through which local entrepreneurs and business managers could obtain help with their business-related problems. Through the combined efforts of the management of Commercial Shearing, Inc. of Youngstown and of Mrs. Charles B. Cushwa, Jr., widow of the former president and chairman of the company, a $500,000 endowment was established in June 1978 to create and support the Industrial Development Center which bears his name. This endowment has now grown to almost $700,000 through contributions from other individuals and foundations. The income from this fund is the only fiscal support of the Cushwa Center at the present time.

The Cushwa Center for Industrial Development has taken as its principal mission the promotion of job-creating opportunities in the region surrounding the University by assisting local companies to broaden their current production capabilities and by encouraging the establishment of new business ventures. Specific objectives include:

-- Assisting local companies in identifying and developing new products and services, and providing guidance in effectively marketing them.

-- Strengthening the effectiveness of local management groups through specialized training and technical assistance.

-- Guiding the exploration and development of new, local enterprises that can serve local industries with goods and services not presently available; and

-- Providing local industry with a permanent channel to the technical and academic resources of the University.

Since the Cushwa Center was activated in June 1979 as a public service department of Youngstown State University, it has provided assistance to more than 100 local entrepreneurs and business managers. This assistance has covered a broad range of needs, from general counseling on business and manufacturing problems to technical information, market surveys, and financial analyses of business operations. Twenty-five of these individuals have been assisted in developing pro forma financial plans or feasibility studies of their proposed ventures, and three of these plans have led to the creation of new local firms. Several other plans show promise, but their developers have not yet been able to attract the investment capital needed to implement them.

The Cushwa Center maintains an effective working relationship with other economic and business development organizations in the greater Youngstown area including the Mahoning Valley Economic Development Corporation, the Youngstown Area Chamber of Commerce, the CASTLO Community Improvement Corporation, and the Youngstown and Mahoning County Private Industry Councils. Indeed, these agencies have been most cooperative in helping to inform the business public about the Cushwa Center's services and have proved to be a useful source of information on the needs of local business and industry. And in recent months, some of these agencies have been referring entrepreneurs to the Cushwa Center for help in developing business plans and feasibility studies.

During the past two years, the Center also has had an opportunity to evaluate several new products submitted by local entrepreneurs. However, none of these products have as yet resulted in the establishment of new manufacturing enterprises, partly due to a need for further product development to ensure an acceptable product and partly due to insufficient evidence that a market for the product could be readily developed. We believe that assisting in the development of new products eventually will become an important activity of the Center in its efforts to encourage the revitalization of local industry. But, recognizing the long lead time needed to develop, manufacture, and market a new product, we do not expect this activity to have a major impact in solving the immediate economic problems of the greater Youngstown-Warren area.

Having assured clients that their projects will be treated confidentially, I cannot reveal without their permission the names of individuals and firms which the Center has helped over the past 30 months. However, to illustrate the type of assistance the Cushwa Center has been providing, I believe I can relate briefly the general circumstances of a few of these projects without betraying their confidentiality:

-- In September 1980, the Center was asked to assist two local entrepreneurs in examining the feasibility of a business designed to service the supply needs of local child day-care, nurseries and preschool centers. After surveying the local market and determining that the potential for sufficient sales was available to support such a business, the Center assisted the entrepreneurs in developing four pro forma business plans bracketing the worst-to-best sales patterns. These plans showed the amount of capital that would be needed to start the business and keep it operating sufficiently to pay for itself in a reasonable period of time. On the basis of these business plans, the entrepreneurs were able to obtain initial financing through a Trumbull county bank. They opened their business in April 1981 and, at last report, were successfully on track with the business plans which the Center helped them prepare.

-- A Mahoning County firm, which repairs high frequency induction coils used in metal remelting furnaces, was referred to the Center by the staff of the Mahoning Valley Economic Development Corporation for assistance on production problems and cash flow management. The Center conducted a review of the plant's practices for controlling work-in-process and an analysis of the firm's financial statements, and suggested certain changes. The management's implementation of the recommended improvements helped to reverse a net loss trend into a net profit in fiscal 1981. Suggested changes in selling practices have also been implemented successfully. The firm's average monthly sales for fiscal 1982 are currently running 30% ahead of 1981, and are beginning to approach the capability of the plant.

-- A metal furniture refinisher in Columbiana County was referred to the Center by a local accounting firm for business management counseling which the accounting firm was unable to supply. The company's

financial reports and operating practices were analyzed and changes recommended to improve fiscal control of the business.

-- A Trumbull County inventor was given assistance in evaluating alternative plans to market a special bracket for a workman's scaffold.

-- A Mahoning County plastic extruding firm was referred to the Center by the staff of the CASTLO Community Improvement Corporation for assistance in developing a business plan for a proposed expansion. The business plan developed was successfully used by the firm to obtain financing for the project from the Mahoning Valley Industrial Loan Fund and from the sale of Industrial Revenue Bonds.

Other projects which the Center has assisted include:

-- An evaluation of the plant layout of a local bakery operation to obtain the most efficient flow of work-in-process.

-- Providing technical assistance to a local inventor during final testing and evaluation of the prototype of a microwave heating device.

-- Providing technical data and management consulting to a local firm which is marketing a new process for applying coatings to steel shapes "in-line" with a rolling operation.

-- Evaluation of the capital required to form and operate a manufacturing company to produce bifocal plastic lenses.

-- Aiding the developer of a mushroom-growing operation in Columbiana County to identify local sources of the needed basic raw materials.

-- Evaluation of the capital required to develop and operate a company to manufacture computer communications systems.

I believe the Committee can see that the Center's projects have been varied and interesting, and that many have involved assisting entrepreneurs with the development of business plans to determine the capital requirements and economic feasibility of their ventures. Our experience indicates that many entrepreneurs lack certain basic knowledge required to develop in-depth feasibility studies. As it is virtually impossible for an entrepreneur to obtain needed capital without a businessplan, we expect that providing this support will continue to be a major part of the Cushwa Center's role in stimulating economic development. In the months ahead, we hope to expand the Center's capabilities. Presently under consideration are plans which will permit the establishment of programs structured to meet the specific needs of local entrepreneurs for industrial consultants, product research and development, and market surveys.

Now, I would like to address a few remarks toward the potential for economic growth in the greater Youngstown-Warren region: There has been much--perhaps too much--written and said about the steel plant closings and their effect on economic conditions in the Mahoning Valley communities. Certain communities were more immediately and more adversely affected than others; some are only now beginning to feel the pinch of reduced services, the result of a shrinking tax base. They have serious problems and their plight should not be minimized. But those individuals who, out of ignorance or lack of understanding, have portrayed the Mahoning Valley as dying or dead, may have dealt a blow more cruel and moreunjustly warranted than any that the plant closings alone could deliver. Their rhetoric has caused a stigma to be attached to the Valley which may take a long time to erase. They failed to recognize the basic strengths of the Valley--the diversification of its industrial base and the resourcefulness of its people.

One of the first tasks I undertook when I assumed the position as Director of the Cushwa Center for Industrial Development was to investigate the characteristics of the "market" that the Center was to serve. Using published information from 1979 directories of manufacturing and industrial companies, we learned some interesting facts:

-- In the five counties surrounding the University, the directories listed 1022 industrial and manufacturing companies.

-- More than 40% of these firms are located in Mahoning County, with 23% in Trumbull County, 19% in Columbiana, and 9% each in Mercer and Lawrence Counties in Pennsylvania.

-- Contrary to the long-standing image of the Valley as a steel-making center, only 9% of the companies were identified as primary metal producers.

-- However, almost 20% of the firms were listed as manufacturers of fabricated metal products.

-- Companies producing machinery constituted 17% of the total listed, and stone, clay, glass and concrete products accounted for 10%.

-- The balance of the companies represented a diversity of products and services, from printing and publishing, food products, furniture, and apparel to electrical and transportation equipment and high technology products.

While we expected to find a significant number of firms engaged in fabricating metal products, I must confess I was as surprised as anyone to discover the variety of other products made in the Valley. More surprising perhaps was the discovery that more than 58% of the companies making these products are small companies, each employing 25 or fewer workers; and another 26% are mid-sized companies employing between 26 and 100 people.

I believe the Mahoning Valley has a high potential for continued economic growth provided its citizens concentrate their efforts toward giving it a new identity, capitalizing on the industrial diversification that was always here, but was for so long overshadowed by the "steelmaking" image. We must strive

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to retain existing viable industries, and support their growth and expansion. And we must work to undo the "doomsday" stigma, so that new companies will be attracted to locate here. The Valley may not have seen the end of the plant closures. To some extent they are the natural "shaking-out" that occurs during any period of economic retrenchment. I would hope that closed plants in the Mahoning Valley will be replaced by other businesses better able to withstand the vagaries of economic change.

The Cushwa Center for Industrial Development, along with other local organizations concerned with the economic development of the Mahoning Valley, is dedicated to providing tangible supporting help to local entrepreneurs and businesses. We hope that your Committee may find in the testimony of those speaking here today information which will encourage you to consider ways and means of facilitating our efforts.

MAHONING VALLEY INDUSTRIAL COMPANIES
GROUPED BY NUMBER OF EMPLOYEES

NUMBER OF EMPLOYEES	COMPANIES		DISTRIBUTION BY COUNTY (%)				
	NO.	%	MAHONING	TRUMBULL	COLUMBIANA	MERCER	LAWRENCE
25 or less	596	58.3	26.2	11.8	11.2	4.7	4.4
26 - 50	143	14.0	5.6	3.2	2.0	1.6	1.6
51 - 100	119	11.6	3.8	2.9	2.7	1.0	1.2
101 - 200	66	6.5	2.2	2.4	0.9	.4	.6
201 - 500	50	4.9	1.1	1.7	1.1	.4	.6
501 - 1000	18	1.8	.3	.3	.5	.4	.3
Over 1000	30	2.9	1.3	1.0	.1	.4	.1
	1022	100.0	40.5	23.3	18.5	8.9	8.8

Sources: Ohio Directory of Manufacturers 1979
Pennsylvania Industrial Directory 1979

MAHONING VALLEY INDUSTRIAL COMPANIES
GROUPED BY COMMON PRODUCT LINE & NUMBER OF EMPLOYEES

PRODUCT GROUP	TOTAL COMPANIES NO.	TOTAL COMPANIES %	PERCENT OF TOTAL COMPANIES EMPLOYING 25 OR LESS	26-50	51-100	OVER 100
Fabricated Metal Products (exc Machinery & Transportation	199	19.5	9.7	3.8	2.9	3.1
Machinery (exc Electrical)	175	17.1	11.1	1.7	2.1	2.2
Stone, Clay, Glass, Concrete	102	10.0	5.9	1.6	.6	1.9
Primary Metal Products	92	9.0	2.4	1.3	1.1	4.2
Printing, Publishing & related products	84	8.2	6.4	.2	1.1	.5
Food & Kindred Products	77	7.5	4.3	1.4	1.2	.6
Lumber & Wood (exc Furniture)	49	4.8	3.6	1.0	.1	.1
Rubber & Misc Plastics	37	3.6	1.5	.9	.7	.5
Furniture & Fixtures	29	2.8	2.1	.1	.1	.5
Chemicals & Allied Products	27	2.6	1.8	.4	.2	.2
Instruments; Photo, Optical & Medical Products; Watches	24	2.3	1.9	.1	.3	-
Electrical & Electronic Machinery & Equipment	23	2.3	1.1	.3	.3	.6
Transportation Equipment	23	2.3	1.1	.3	.2	.7
Apparel & Similar Products	20	2.0	1.7	.1	-	.2
Paper & Allied Products	14	1.4	.5	.1	.5	.3
Petroleum Refining & related products	12	1.2	.9	-	.1	.2
Textile Mill Products	7	.7	.1	.4	.1	.1
Leather Products	4	.4	.2	.1	-	.1
Miscellaneous, not classified	24	2.3	2.0	.2	-	.1
	1022	100.0	58.3	14.0	11.6	16.1

Sources: Ohio Directory of Manufacturers 1979
Pennsylvania Industrial Directory 1979

Representative BROWN. Thank you, Mr. McBride.
Mr. Wilson.

STATEMENT OF GEORGE E. WILSON, PROJECT COORDINATOR, CASTLO PROJECT

Mr. WILSON. Thank you, Congressman Brown.

Just by way of introduction, I might say that I have run the full circle from a local developer in Akron, Ohio, to Ohio's first development director, to regional entities like the Great Lakes, to the Federal Government, and now I'm back at the local level. Frankly, this is where it's all won or lost. I call it, "in the trenches."

So, today, I want to talk to you about a project that I think is a bit unique from the standpoint of why it was born and how it continues to operate. CASTLO, is an acronym for the three initial cities within our area, Campbell, Struthers, and Lowellville. We have added two townships since that time to give us some land area that provides us with potential green field sites.

The CASTLO project was created as a direct result of the 5,000 steel company layoffs in 1977. Those were primarily the Campbell Works of Youngstown Sheet & Tube. The project was initiated as a nonpartisan effort by Governor Rhodes and State Senator Harry Meshel. The CASTLO communities were designated as target areas since the shutdown facilities were physically located within these three communities. As such, the total tax base was adversely affected, and that included all taxes: real estate, corporate, and income taxes.

CASTLO, when it was born, was in a climate of what I call "grand plans" for the revitalization of the steel industry. It was estimated that over a 2-year period immediately following the closing, that a total of $1,400,000 was expended in economic studies and analysis, the bulk of it furnished by the Federal Government.

To tackle the challenge, at least locally, of what to do, a policy committee was created. Over the course of the years in which I have been involved in industrial development, it always seemed to me that there was a continuing battle between the executive and legislative branches of government. Somebody in the city council is always running for mayor, and as a result, you always have this constant conflict. So, in order to try and solve that problem, we initially established a six-man policy committee. The three mayors of the individual communities and the three chairman of the general improvement committees.

The Ohio Department of Economic and Community Development and, I think, this is the proper role for a State agency, furnished administrative support.

The first thing we had to do was to hammer out our major thrust areas. First was to formulate programs for acquisition and utilization of the nonoperating steel facilities. That was as of 1978, and any other facilities that might be declared excess in the future. On April 1, 1980, the CASTLO Community Improvement Corporation actually acquired the Youngstown Sheet & Tube Struthers Works and renamed it CASTLO Industrial Park for conversion into a quality industrial type development.

Our second thrust was to increase the quantity and quality of land zoned with complete public utilities available for industrial development projects. Up to that time there was very little attention paid to the need for industrial land in these communities since it was always felt that Youngstown Sheet & Tube was always in existence and therefore they would have a nice tax base. Well, they had a rude awakening on what has often been referred to as Black Monday.

The third thing—the third major thrust area was to investigate alternate uses of nonoperating facilities and contact potential users for those locations. For the CASTLO Industrial Park, we are thinking possibly of the aluminum industry using facilities similar to steel.

Now, there is nothing too unique about the major thrust areas since they're standard approaches to economic development. What was unique, I think, was the original structure and the philosophy that was employed originally by our participants.

First, the policy board as well as all communities were supported by both economic and legislative members. That is, we had a council member wherever we had somebody representing the city, which over the period of the first 2 years, I think, was absolutely indispensable. What it really meant was that there was communication established between those responsible for running the cities and those who were responsible for creating legislation to complement the program.

The second item which everybody agreed on, was that all meetings would be held in confidence. Now, the press ordinarily doesn't like to have government hold meetings in confidence. We have all sorts of legislation now which talks about the sunshine law and so forth.

Well, we decided they would be held in confidence and the reason for it was it eliminated the historic politicking on basic controversial issues.

Third, get our communities to work even though they were very closely tied together. They pledged to work on projects regardless of the location. What they agreed to was that the three of them together could do something that none of them could do singly. We then attempted to establish a list of projects based on need of the three communities rather than on need for any individual community.

Fourth, they agreed that all information, confidential or otherwise, was provided to members so that sound decisions could be made at all times. Now, at times, this gets a little hairy, because there is always a question about giving out project information. Our policy board agreed if there was any violation of this trust of confidence, they would immediately be expelled from the group. I might say that has worked very, very effectively over the course of this organization.

Fifth, was that no program or no project would be undertaken unless it was by unanimous decision. The feeling that there was enough to do that everybody agreeing to something, than to undertake a program when we had disagreement.

Sixth, stick within the geographical boundaries of our five communities. In so doing, we have had a very effective working relationship with the Mahoning Valley Economic Development Committee and so forth.

It was these six basic operational policies that were responsible, I believe, for carrying out a successful development program that had

both long and short term goals. We had short term goals like getting enough money to maintain levels of service in these communities because of this tremendous tax loss. There was a question if we had enough money to maintain our police force, and as a result of this combined effort, we were able to get $1,200,000 from the State of Ohio to maintain those levels of service immediately following the loss of all the tax revenues.

We compiled a 5-year source and application of funds study for these communities. You have often heard the old saying that you've got to plan work, then work the plan. Small cities never think in terms of a budget beyond 1 year. So what we did was project the tax losses that resulted after these closings. With this information we could justify getting additional funds, whether it be State or Federal funds. We did a building and sites survey. In industrial development, that's the inventory on your shelf. If you don't have buildings, you don't have land that's zoned and ready, where are you going to go in terms of providing a place for jobs?

Our long-term goals included securing 1,500 new jobs in 5 years. That's a specific goal. That was the employment of the Struthers Works of the Youngstown Sheet & Tube. Our objective is to replace job for job, each of those 1,500.

That means we are restricted in the kinds of prospects we can take. Rather than the warehouses, where there is very low employment, we are sticking to accommodating companies that create jobs rather than simply take space. Our long-term goal is to create a modern industrial park out of the ashes of an abandoned steel mill. Just this week we approved an architectural engineering plan. Through a combination of State and Federal funding we are going to spend $4,217,808 over the next 5 years on our industrial park.

Third, we adopted and are sticking to sound financial practices designed to eliminate any need for outside Government funding after a 5-year developmental period. I might say this is a very important consideration all through the deliberations of CASTLO. It was felt that this 5-year developmental period is essential. Our decisions have been made on the basis of—is it going to help us in that sixth year when we have to do it on our own.

From February 1978 to the present, approximately 3 years, progress has been slow, but we think sure. The most difficult part of our job is to have all parties understand that economic development is a slow process.

Common complaints, especially from our private sector participants were that it took too long to negotiate the purchase of the Struthers Works; it took too long to get our first tenant, our second tenant, et cetera; it look too long to complete our renovation study, and on and on. But through all this agonizing process, attendance at our meetings continued to run at a phenomenal rate of 80 percent.

The bottom line on all economic development is always how many new jobs are you responsible for creating.

In the past 2 years CASTLO has secured four tenants with a new job total of 119. Our present tenants project an increase in jobs to 750 over the next 5 years. This would still leave us short of our replacement goal of 1,500.

All four tenants qualify as small businesses; 85 percent of our current prospects are small businesses. This is logical since 80 percent of all new jobs are created by small businesses. The future success of our efforts will be directly related to our ability to accommodate the needs of small growth companies.

These needs include basic manufacturing space at reasonable rates of $1 to $1.50 per square foot. We are able to do that now at our industrial park. A continuation and extension of industrial revenue bond programs including direct loan guarantees and providing low interest financing to new and expanding businesses. There is a need for technical assistance for businesses applying for financial aid.

We need continuation of a Federal agency like EDA to assist high unemployment areas like the CASTLO communities. We need enactment of innovative Federal programs designed specifically to help small businesses like the Small Business Innovation Research Act, H.R. 4373.

We need a good hard look at other R. & D. type programs, and anybody that has an interest in industrial development ought to read Business Week's special issue Japan, Inc., and R. & D. is a thread that ran through a great deal of the testimony that I hear here today.

We need expansion of efforts to make small business aware of the benefits to be derived from an active exporting program. We heard this talk about the world economy, and again it's a tremendous way for small companies to increase their total business by 30 percent without any increase in overhead or administrative costs. I think the Department of Commerce programs designed to do that should be expanded and not curtailed.

Federal response to the aforementioned needs is essential if CASTLO and the other economic development organizations in the area are to continue with positive action leading to the economic revitalization of the Mahoning Valley and especially the five CASTLO communities. Thank you.

[The prepared statement of Mr. Wilson follows:]

Prepared Statement of George E. Wilson

CASTLO is an acronyn and comes from the first two letters of our original participant cities of Campbell, Struthers, and Lowellville. To these three cities have been added the two contiguous townships of Coitsville and Poland.

The CASTLO Project was created as a direct result of the Steel company lay-offs of 1977. The Project was initiated in a non-partisan way by Governor James A. Rhodes and Senator Harry Meshel. The CASTLO communities were designated as a "Target Area" since the "shut down" facili ies were physically located in these three communities. As such the total tax base was adversely effected. These included real estate, corporate and income taxes.

CASTLO was born in a climate of "grand plans" for revitalization of the Steel industry. It was estimated that over a two year period a total of $1,400,000 was expended in economic studies and analysis.

To tackle the challange of "what to do" a Policy Committee was organized. The Policy Committee membership included three members of the executive branch - - The three mayors and three members of the Legislative Branch - - The three chairman of the General Improvement Committees of the City Councils.

The CASTLO Policy Board with Administrative support from Ohio's Department of Economic and Community Development hammered out a set of major thrust areas.

1) Formulate Programs for acquisition and utilization of non-operating facilities (as of 1978) and any other facilities that might be declared excess in the future.

2) Increase the quantity and quality of land zoned with complete public utilities for industrial development projects.

3) Investigate alternate uses of non operating facilities and contact potential users for location at CASTLO.

There is nothing too unique about these major thrust areas since they are standard approaches to economic development.

What was unique was the organizational structure and philosophy that was employed by the participants!

FIRST: The Policy Board as well as all the Committees of the Board had both executive and legislative membership. That simply meant that communication between those responsible for running the cities (executive) and those responsible for legislating (councils) were completely informed.

SECOND: All meetings were held in confidence. This eliminated the historic politicking on controversial issues.

THIRD: All communities (who had not worked together previously) pledged to work for projects regardless of location, or collectively they agreed that they could do something they could not get done singely.

FOURTH: All information, confidential or otherwise, was provided to members so that sound decisions could be made.

FIFTH: No program for Action would be undertaken unless it was a unanimous decision.

It was these five basic operational policies that were responsible for carrying out a successful developmental program that had both short and long term goals.

Short Term Goals Like:

1) Getting enough money to maintain minimum level of public service.
2) Compiling a five year source and application of funds study.
3) Compiling a building and sites survey.

Long Term Goals Like:

1) Securing 1,500 new jobs in five years.
2) Creating a modern industrial park out of the ashes of abandoned Steel Mills.
3) Adopting and sticking with sound financial practices designed to eliminate any need for outside government funding after a developmental period.

From February 1978 to the present (approximately three years) progress has been slow but sure. The most difficult part of our job has been to have all parties understand that economic development is a slow process. Common complaints especially from our private sector participants were:

It took too long to negotiate the purchase of the Struthers Works.
It took too long to get our first tenant, our second tenant, etc.
It took too long to complete our renovation study.
etc, etc,

But through all this agonizing process, attendance at our meetings continued to run at a phenominal rate of 80%.

The bottom line on all economic development is always "How many new jobs are you responsible for creating".

In the past two years CASTLO has secured four tenants with a new job total of 119. Our present tenants project an increase in jobs to 750 within the next five years. This would still leave us short of our replacement goal of 1,500.

All four tenants qualify as small businesses. Eighty-five percent of our current prospects are small businesses. This is logical since 80% of all new jobs are created by small businesses. The future success of our efforts will be directly related to our ability to accomodate the needs of small growth companies. These needs include the following:

1) Basic manufacturing space at reasonable rates $1.00 to $1.50 per square foot - We are able to do that now at our industrial park.
2) Continuation of Industrial Revenue Bonds as a viable financial alternative to commercial banks.
3) Technical assistance in preparing loan applications.
4) Continuation of a federal agency like EDA to assist super high unemployment areas like the CASTLO communities.
5) Enactment of innovative federal programs designed specifically to help small businesses like the Small Business Innovation Research Act (HR 4373).
6) Expansion of efforts to make small business aware of the benefits to be derived from an active exporting program.

Representative. BROWN. Mr. Wilson, thank you very much.

Gentlemen, I appreciate your statements, and I want to—I forewarned the last panel so I should perhaps forewarn this one. I have a constraint of time that requires me to leave at about 1:30. So we're running much later than I thought we would.

I'm going to ask the last panel, if they would, to try to abbreviate their statements to the extent that they can. We'll put the whole prepared statement in the record as it's presented to us.

Mr. Stamm, could I ask if the State of Ohio is doing anything to stimulate the kind of experience that, as I understand it, is going on now in Harvard University and DuPont Corp., which DuPont has offered to provide the funds for research in the genetic area if Harvard will give DuPont early information about what they have discovered in their research so DuPont can turn it into a profitmaking venture. The concept being here that they wouldn't lose—Harvard wouldn't lose the copyrights, but rather that DuPont would have a kind of Hewlett-Packard year or two lead time on the knowledge. If they put up the money, that would then stimulate Harvard research. It would stimulate DuPont to do business. It would presumably provide a job opportunity for employees and a service, or new business for consumers. Everybody would benefit, and it wouldn't have to be done with public funds.

Do you have a comment on what we might be doing in that area in the State of Ohio?

Mr. STAMM. Congressman, I'm not aware of a program that is exactly tailormade to the one up at Harvard, but there are several efforts ongoing that address the same problem.

One is Battelle, through one of their subsidiaries that makes available venture capital to small companies who have something they would like to market, but they don't have the capability to finance it. Battelle's interest here is, of course, to have an equity position. They would like to have another Xerox.

That's something along the line of what I think you were discussing. More importantly, we hope that similar programs will come out of the effort that I mentioned in my statement, whereby the State's universities and colleges are now combining their resources to establish a high technology information exchange system between and among the organizations and the private sector.

We find that there is a lot of information, a lot of research being done, but unfortunately a lot of companies are not aware of what's available. The idea here is to optimize the knowledge and talent that is available in universities.

Let's take, particularly, a smaller company that is developing widgets or whatever. There are, say, certain metallurgical problems they cannot resolve, they cannot resolve themselves because they do not have the expertise nor the financial backing to do so. So the idea is to bring them together with the information that is available.

Ultimately, what we are going to have, is a system whereby the company president can call Ohio State University and say here's our problem; who can help us? They put the information in the computer and out comes the names of all the professors or experts in that particular field to help the company.

I think this will go a long way in optimizing what research is being done in that university.

Representative BROWN. Thank you, very much.

Mr. McBride, you heard the testimony from the previous witnesses about the capital availability for venture capital. What do you think can be done to stimulate that in the State of Ohio?

Mr. MCBRIDE. Well, I——

Representative BROWN. Or in the Youngstown area, or in the country in general?

Mr. MCBRIDE. Well, I subscribe to a number of the points that Mr. Tod and Mr. Roth particularly made. I remember an incident where Mr. Tod and I were driving to another company, a company we both have an interest in helping, and we got to talking about Commuter Aircraft, and I mentioned to him—I didn't know that his company had been involved in it at the time—I mentioned to him, it seemed that that project needed tangible evidence of local support. I found out some weeks or months later that in fact that's exactly what he and Mr. Roth had been doing.

I think that he mentioned a number of other things such as the ability or lack of impetus, I guess, on the part of investment institutions, both trust funds and banks and others to take positions in venture capital situations. I would certainly encourage any efforts that would cause local lending institutions to take that kind of position.

I feel it's beneficial. We would find out in time that it is going to be quite beneficial here in the Valley.

The industrial revenue bond situation is another one. There are some pros and cons on that. The long term effects of continuing to provide tax exempt incentives to industry may become very hard, down the road sometime, but as a—if you will permit me the use of the term—"pump priming," at this point in time it's serving a very useful purpose.

Representative BROWN. The industrial revenue bond is a little bit—in some of the other things, tax rebates or abatement, tax abatement—is a little bit like the restaurant business where sugar and salt are free on the table, and everybody is doing it, so you do it because it's there, or it's so general that it is one of those things that you could not do.

Mr. MCBRIDE. It would seem that would be the case the way it's handled at the present time. I don't have any suggestions as to how that ought to be altered or changed at the present time.

I'm not, perhaps, as expert in financial matters as some of the other gentlemen that are here today, but I can only say that—I guess my only—if I have any criticism of the industrial development revenue bond program, it is that there have been investments made in businesses that are not industrial. In fact, they are commercial or retail, and they're involved in distribution of goods or services rather than the creation of the goods.

Representative BROWN. What should be the test on industrial revenue bonds?

Mr. MCBRIDE. Well, I would think——

Representative BROWN. Jobs?

Mr. MCBRIDE. That could be one test, but I think we should look more toward the value added concept that Mr. Roth addressed in the last part of this remarks.

Commuter Aircraft is certainly a value added venture. Products going into the valley, the work done on them, and aircraft will be the result of that activity.

Representative BROWN. Well, on the theory that you have a value added job put into the community which would be an industrial or production job, that the retail industry therefore flows from them?

Mr. MCBRIDE. That's right, yes. In other words, we've seen on a number of occasions in this valley where industrial revenue bonds have been used to support commercial or retail operations, and some of which have been successful and some have gone under. I'm not saying that manufacturing woud be any less prone to that, but I think there's a better chance because of the tests that manufacturers normally put in a development of a project.

They are not going to start to build any kind of a manufacturing product without a pretty well identifiable market. That does not seem to be the case in some of the other ventures.

Representative BROWN. Mr. Wilson, you have been on all sides of this issue, and I had this question raised to me on a number of occasions.

In a regional sense, or a community sense, you have been a particular beneficiary of State assistance in the CASTLO operation, so maybe it's a question you're not really able to answer because you haven't had the problem, but one of the communication companies has a motto or is pushing a slogan of "Reach out and touch somebody," and the concern about operations like Mr. McBride's and Mr. Stamm's are that some of the communities or some of the businesses that have problems don't know that there is somebody out there to help them. They don't get the help that they want. They want some more aggressive effort in giving them assistance.

Do you think that the local communities—well, CASTLO involves three communities and two townships, but there are other communities in the neighborhood that have been affected adversely by what's happened to Youngstown also, are getting the kind of assistance they need from the institutional organizations, and I would include the financial institutions?

Mr. WILSON. I think there is a great deal of need for servicing the companies that need the help. I don't think it's the availability of money so much as it is the assistance in helping companies put together, literally, the loan application for the money.

A good example is the $100 million set aside by the EDA for the valley. In 1 full year there was only one loan totaling about $4 million that was made out of that fund.

Here we had this tremendous need. There weren't good projects, let's say, or there wasn't the know-how. But some companies knew how to take advantage of this. If we're lacking anything, I think I would give any business that employs or that does over $1 million a year an Apple computer and business system, because I think that—and Mr. McBride can tell you, this is one of the biggest problems we have, and I think it's true that when a company has to make an application to a bank, they really don't know how to do a pro forma, and that is something that is very basic and fundamental.

So, I've always taken the position that it's not the availability of the money that's the problem. There's more than enough money available.

Representative BROWN. I should have had you and Mr. Tod at the same panel, or Mr. Roth.

What about that, Mr. McBride? Is it a question of management techniques that you get asked about most often; or is it a question of research assistance and technical engineering problems and that sort of thing that are affecting some of these businesses?

Mr. MCBRIDE. I can only judge by the clients that we've had over the last 2½ years. By and large those have been people who know pretty much how to make the product or provide the service that they have in mind.

Some of them that have been in business for some time, they know how to make the products. What they lack, though, is how to put together what they want to do as far as expansion and new products or new projects, and put that together in a convincing way so that they can approach lending institutions, the Small Business Administration or a small business investment company, or something of that nature and persuade that company that they really do have a viable product or project that is worth money and will return a significant value for the money that's invested.

Representative BROWN. You're familiar with the opportunities industrialization center?

Mr. MCBRIDE. I am not.

Representative BROWN. Leon Sullivan's effort to take——

Mr. MCBRIDE. I must confess, sir, that I'm not.

Representative BROWN. That spoils my question.

I want to get a thread going here. One criticism of your study that could be made, is that while you list the companies, you don't necessarily talk about the jobs or the value added, a point you just sustained of Mr. Roth's, and I guess what I want you to do is to interrelate that thought you presented, that small business—that Mr. Wilson sustained—that small business is really the generator of jobs and economic expansion, much more than business.

Is that a fair statement of what you both suggest?

Mr. MCBRIDE. Yes, that's a fair statement.

Representative BROWN. And I would go to Mr. Stamm and I ask whether or not you feel there is enough focused on the small business, and maybe whether all three of you feel there is enough focus in the State Industrial Development Department in the small business field to help the entrepreneur who may have an idea that would enable him to double his employment from 3 to 6 or 6 to 12 as opposed to trying to get somebody in who is going to bring in 2,000 jobs in the community, such as Honda or you mentioned several others.

Mr. STAMM. Well, let me respond to the IRB situation. Obviously, from the Federal level, everything looks a little different than it does at the State and local level. If we look at the State of Ohio, I think there is a very good reason for us to continue using industrial revenue bonds for warehousing purposes, considering the location we have in this Nation, and considering also what some of the big carriers, such as Flying Tiger, are doing.

They are obviously looking at Ohio as a springboard for global exchange of goods. It stands to reason that in this State perhaps we have a greater stake in the distribution area than others, and therefore, we

should continue using IRB's. A lot of jobs are created, as you know, with some of those big carriers, but——

Representative BROWN. What you're suggesting is an infrastructure problem. If you had the service in the area, you can get the industrial job locations and so you can defend IRB's in that way as providing infrastructure.

Mr. STAMM. Yes. On the other question, as I pointed out, we do not make a distinction between big and small corporations. It's not very easy to make a big to-do about 20 jobs that we just created in Delta by making available $39,000 for sewers.

Representative BROWN. We're not doing it for the press. We're doing it——

Mr. STAMM. I understand. What I'm saying, Congressman, is the problem is oftentimes a perceived one as was pointed out earlier with the steel industry. We're made to believe that steel is the only thing in Youngstown, when the facts clearly point out it's not.

In fact, it's a small part of it. It's all the same with the effort by the developing department. We have numerous industries, and one of the problems that was pointed out earlier, particularly with the new Senate bill 313, developing a financing program, a lot of small industries lack the business knowledge.

We find we can deal best with those companies that have an accountant, because they can put together what it takes to make a project fly, and the first thing we do when we sense there is something potentially good, we try to convince the entrepreneur to bring in an accountant so we can help him over that hurdle. In fact, we are much more lenient with small companies in that we do not insist on audited financial statements 3 years back. We are willing to look at just reviews in order to help them out.

If we apply the same strict standards as we do with big corporations, we would oftentimes fail to put together a package that would help the client.

Mr. WILSON. But I think even a minimum loan application, you have to be a CPA in order to put the thing together. We heard testimony here today involving McDonald Steel which was a sizable operation. The total requirement of this project was going to be 50 million plus dollars.

We're talking about a company like West & Barker, this is right to the point.

This is a letter dated December 9:

> I would like to take this opportunity to personally thank the Assistant Director for CASTLO for the help in our recent effort to secure a low-interest loan for our expansion program. I realize that many small businessmen feel that a community development program similar to yours is not helpful to the small businessman. However, the effort put forth by the people of CASTLO, especially that of Gerre Mikes and John Stanton, established and reinforced the confidence I had in community development programs.
>
> With the time element involved, and without the help of CASTLO, we would have never been able to secure a loan within the time frame that we were working with. We would have abandoned the idea altogether. Again, I would like to thank you for a job well done.

This is signed by Mr. West of West & Barker.

We have case workers in the welfare program, and we need case workers in industrial development. Mr. McBride was of great assist-

ance in this, as an example. So, we were able to rely on his expertise, but it literally gets down to holding hands, in a lot of cases with clients.

Representative BROWN. It's kind of the perversity of the Lord, isn't it? When we need the big house because we got the kids coming along and don't have much of a job and can't afford the mortgage payment. When you can afford the mortgage payment and the big house the kids are gone and you don't need to have it.

The idea of helping businesses that exist in the community with new products is an interesting one.

Mr. McBride, do you see that as a promising field in Ohio?

Mr. MCBRIDE. I think it has its merits. I certainly wouldn't want anything I said previously to create an impression that I'm against university research and development in the product areas, because that would be very far from the truth. That sort of research helped me get through graduate school a number of years back.

Representative BROWN. Well, I'm sure that has merit, too, but it's got to have more merit than that.

Mr. MCBRIDE. Yes, but really, the freedom of expression and the ability to investigate all kinds of things that exist in the university environment has got to be very, very beneficial to the long-range effects on our economy—the cost of things that have happened in and around the Boston area where there is substantial interaction between universities and private enterprise, I think Silicon Valley in the San Francisco area is another example. There are a number of others.

Representative BROWN. How do you get that going? That's a good example, but how do you get that going?

Mr. STAMM. Congressman, I would like to spend some time on this question. I was hoping you would get into that.

Representative BROWN. Well, let me speak to Mr. McBride for a minute, then I'll come back to you and Mr. Wilson.

Mr. MCBRIDE. In the case of New England, with which I have some familiarity, the universities already existed. They were already involved in doing research. Some on government-provided contracts, and some on private enterprise, and the spinoff involved with industry and the spinoff with private enterprise, all kinds of things came from that nucleus.

Now, a case where—for example, here in Youngstown—where we do not have such a research center immediately identifiable. Youngstown State University has for many, many years identified itself as an educational institution through which its faculty also is allowed to do research and public service work, but there's not been a strong enough system.

One way that worm can turn, so to speak, is through private enterprise establishing a not-for-profit research center which has been done in a number of places around the country. That institution then will generate contracts and be doing research which ends up in manufactured products of one type or another. It could be created through support of State institutions, also.

I think there is a bill, some provision in the State of Ohio, right now in the present budget for funding for an institute for applied science and technology. Whether the funds for that would be forthcoming remains to be seen.

The Federal Government, through its many, many programs in research and development in all branches of Government, provides support for those kinds of things. There are a number of ways this sort of thing can be worked out.

Representative BROWN. Mr. Stamm.

Mr. STAMM. Let me illustrate my point in the success story that's happening down in Clermont County.

Ten years ago, three professors from the University of Cincinnati got together, recognizing one very important thing that was happening; namely, that the hardware end of the computer business was way ahead of the software end of it. They have now reached a position—they just cleared $20 million in business—which was three times as much as the second competitor in the United States.

Computer-aided engineering is the next step beyond CAD/CAM—computer-aided design, computer-aided engineering. They're so far ahead that none less than General Electric realized that we got to buy them. You know what they already bought in the hardware end. They bought 48 percent of the stock of the corporation, developing a worldwide network with the headquarters down in Claremont County to help industries in cutting back the design and cost factor in designing anything.

To give you an example of the importance of this: Normally, people say, yeah, you're talking about automobiles, caterpillars, big earth movers. They showed us in one example—the electric can opener—what they mean. Now, that's about as down-to-earth as can be. They were confronted with improving that machine and cutting costs through computer-aided engineering. They cut off $350,000 on that product.

This company is making available their multimillion-dollar computers to high school kids in Clermont County. They're making it available to vocational schools. They have a program going with Ohio State University, and others. They're giving away their old hardware which is still good, to establish something down the road that will mean the survival for most any manufacturing industry in Ohio and in the world.

General Motors is now at the point where they're not saying, here's the widget, can you make it? They're saying, "here's the problem, can you help us design it?

We will communicate with anyone in the world through satellites in a language you either understand or you don't. If you don't, you're out. This is happening in Clermont County, and I predict that you will have something equivalent of the Silicon Valley or Route 128, in Boston, in the area of the software end of this whole high technology business. Every industry worth its salt must be willing, along the lines of using the computer technology, either in their design, engineering, or manufacturing process.

Mr. WILSON. I think we first have to talk about the odds taking an idea and having it evolve into a commercial product.

For every 100 good ideas, only 10 of them, after a long analysis, become commercially viable. Out of those 10, probably only 2 will reach the point of development where they're going to test market the product. Only one will be successful.

Now, the question is, who provides the up-front money to do this? I think the one place not to look to is the university. At least that is my experience as a trustee of a university. Their primary interest is in basic research. They're not interested in a product or developmental research.

Again, I refer back to Japan, Inc. We can take the automotive industry as a good example. They have had the Japanese Automobile Research Institute for 8 to 10 years. Industry prepares a research agenda each year. The purpose is to see what products are needed that are going to be in the national interest.

Automobile pollution control devices are a good example. This was submitted to the research institute, which has on its board, academia, government, what have you.

Representative BROWN. You are talking about focusing an institute into a specific area of need?

Mr. WILSON. The Japanese automobile manufacturers say, here are 10 items that we think we need to explore from either a basic or developmental research standpoint. These are submitted then to the Japanese Automotive Research Board which has on it say 15, 20 people. They either approve or they change this agenda of research.

It goes back to the manufacturers. Once these manufacturers prove this research program, it is automatically funded. They fund 50 percent of the research and the Federal Government handles the other 50 percent.

Bernie is talking about software. They just made available $200 million to Japanese industry to shorten the time lead on software. They are excellent in hardware, very bad in software, but the Federal Government is making available $200 million in one specific high technology area.

I think if the Federal Government is going to do anything in this area, it ought to have a little market research of its own to select those industries which, we'll say, should be assisted in terms of the national interest.

Representative BROWN. It seems to me that it's also available for State and local communities, that same process?

Mr. WILSON. R. & D. needs help like the House bill that's before you now where there is a certain set-aside for small business in terms of research type projects.

Representative BROWN. We seem to be on a roll, but I think we better go to our next panel. I sense that we're very close to the question that one of the other congressional committees is looking at, and that's where life begins.

We are thinking about where it begins in the economic sense, and our next panel deals with that to some extent. It provides for the President—something called the American Business Conference, and I would ask them to come forward, if I may.

On behalf of the subcommittee, thank you very much. I would like to introduce our third panel: Mr. John M. Albertine, president of the American Business Conference; Mr. D. W. McGowan, president of the Dollar Savings & Trust Co.; and Mr. William Lyden, president of the Western Reserve Building Trade Council.

Gentlemen, it's a pleasure to welcome you. It's a particular pleasure to welcome Mr. Albertine, because at one time Mr. Albertine was the staff director of the Joint Economic Committee, and spent most of his time telling the members what to do, and now I have the opportunity to tell him what to do, and that is, you go first, Mr. Albertine.

STATEMENT OF JOHN M. ALBERTINE, PRESIDENT, AMERICAN BUSINESS CONFERENCE

Mr. ALBERTINE. Thank you, Representative Brown. It's a delight for me to be here today.

I would like to begin by talking a little bit about the American Business Conference. The American Business Conference is a coalition of chief executive officers nearly 100 high-growth, mid-size companies or companies that have revenues annually between $25 million and $1 billion. Each company has grown at least 15 percent a year for the last 5 years, so that each have doubled in size. The average growth rate actually is somewhere in the neighborhood of 30 percent. So the companies of the American Business Conference really do represent the winners of the American enterprise system.

Our companies come from every region in the country and represent the entire spectrum of American commerce.

Recently, the Joint Economic Committee under the able staff leadership of Mark Policinski surveyed the members of the American Business Conference to determine the criteria our members use to choose locations for building plants and other facilities. While we don't have the final results of the survey, the preliminary results indicate that our CEO's are much more interested in a good business climate, a willingness to cooperate with business, than in such traditional factors as the availability of raw materials, climate or energy supplies.

I think the results should be very heartening for a community like Youngstown, because they show there is ample opportunity for this community to turn its local economy around and return to prosperity.

The preliminary results from the survey of American Business Conference members, again firms with exceptionally strong growth records, show that the six most important factors in selecting locations for new facilities are: Access to market; labor costs; State and local regulatory practices, labor skills and labor availability; transportation; and State and local taxes.

The least important are: The cost of living, energy costs and availability, climate, cultural amenities, and access to raw materials.

Business is primarily interested in the willingness on the part of labor, State and local governments to cooperate with business people to develop a healthy business environment. They are not as interested, as one might think, in such immutable factors as climate or endowments of energy resources or other raw materials.

The only one of the six most important factors which would be difficult for a community like Youngstown, or any other community in the country to create is access to markets. However, this particular community, of course, doesn't have that problem. Alaska, on the

other hand, obviously will never attract many manufacturers of beach umbrellas.

On the whole, I think this community has ample opportunity to attract and retain new firms. Let's run down the list of the other most important attributes, and I will try to give you examples of how communities in economic distress can lure new businesses.

Competitive labor costs are essential. Firms are unwilling to move to an area where the demand for labor is bumping up against the ceiling of labor supply, which results in a noncompetitive wage structure. Certainly, Youngstown has just the opposite problem.

The next most important factor is State and local government regulatory practices. Here, I believe, is where this community can have the greatest opportunity to be attractive to expanding firms. The most important regulatory and reporting requirements which the survey came up with are zoning, building permits, building codes, filing and inspection requirements. Regulations and the cost of unemployment insurance and workmen's compensation are also important.

Business people spend much, much too much time, energy and money trying to obtain the proper permits for construction, gaslines, sewer systems, and new roads. Not only do these delays cost time and money, more importantly, they cause business to lose momentum. In business, as in sports, maintaining momentum is vital for success.

If you can restructure your regulations in this community so that requests for permits, zoning variances, environmental impact statements, and the like are simple and clearcut, and most importantly, are issued promptly, then industry will be much more interested in moving here. Most business people feel about regulatory reform on the part of government the way Mark Twain felt about good bourbon. "Too much," Twain said, "is barely enough."

Labor skills and availability are another key factor in siting decisions. Businesses would prefer to have a pool of trained labor available, rather than to start from scratch and train their own work forces. But the availability of labor itself which is eager for an opportunity to work and prove itself is a plus. Again, Youngstown gets high marks here.

The next most imporant attribute is transportation. Topnotch commuter transportation facilities for workers and high-quality transportation facilities for supplies and finished products are a definite plus. I am not familiar with the conditions of the transportation facilities in Youngstown, but again this is an area in which the community can make—if the community can make improvements, this could be very helpful.

The last of the six most important criteria is State and local government taxes. And as you pointed out, Congressman, the use of tax breaks to attract new businesses has become virtually a universal phenomenon. Communities, therefore, must offer tax concessions just to remain competitive. Localities which do not do so, obviously put themselves at a serious disadvantage.

Aside from these six criteria, the survey respondents also agreed that State and local financial incentives were significant in their siting decisions. The most effective incentive was the availability of industrial development bonds. There are some proposals, as was discussed a moment ago, in the Congress to modify the tax exempt status

of these issues. Representative Brown, I would counsel you to counsel your colleagues to look very carefully at those proposals, and to look at the effect they might have on regional development.

The second most effective financial incentives are property tax abatement. Certainly the long-term impacts of job creation should outweigh the negative short-term revenue considerations associated with property tax abatement.

High-tech firms also find the proximity to a university system significant in location choice. There are four major reasons given to the significance of university systems in making location choices. Universities guarantee a pool of college graduates. They provide a convenient mechanism for supplying additional training and education for employees. Faculty research activity may be helpful to the firm's research and development efforts. Lastly, the universities provide reservoirs of technical information, extensive libraries, and cultural amenities to the community.

In summary there is plenty that a community can do to attract new industry. Youngstown does not have to shut down just because some steel mills are closing down. If this community is willing to make the effort to change direction in some areas, there is no reason why Youngstown cannot again be a boom town.

I would like to close with something that one of the members of the American Business Conference wrote at the end of his completed survey.

He said, and I quote:

> The most important incentive is a good business climate, a willingness on the part of state and local government to treat you as a partner and the source of something good, not as an adversary and something to be tolerated. Everyone wants to be wanted.

Thank you.

[The prepared statement of Mr. Albertine follows:]

PREPARED STATEMENT OF JOHN M. ALBERTINE

Good Morning --

I am delighted to be here this morning to discuss the factors influencing business decisions on plant location. First, I would like to give you some background on myself and the organization I represent.

I am the President of the American Business Conference. The American Business Conference is a coalition of nearly 100 mid-size, high-growth companies. Member firms have annual revenues between $25 million and $1 billion. Each has grown a minimum of 15% per year for the last five years. This growth record means that ABC member companies have doubled in size over the last five years. ABC members truly represent the "winners" of the American economy.

The typical ABC firm was started 15 or 20 years ago. It now has revenues of between $200 and $300 million. It employs between 2,000 and 3,000 people and operates about a dozen facilities nationwide.

Recently, the Joint Economic Committee surveyed the members of the American Business Conference to determine their criteria for choosing locations for building plants and other facilities. While we do not yet have the final results of the survey, the preliminary results indicate that firms are much more interested in a good business climate -- a willingness to

cooperate with business -- than in such traditional factors as the availability of raw materials, climate, or energy supplies.

I think the results are very heartening for a community like Youngstown, because they show that there is ample opportunity for you to turn your local economy around and return to prosperity.

The preliminary results from the survey of American Business Conference members -- firms with strong growth records -- show that the six most important factors in selecting locations for new facilities are:

- o Access to markets
- o Labor costs
- o State and local regulatory practices
- o Labor skills and labor availability
- o Transportation
- o State and Local taxes

The least important are:

- o The local cost of living
- o Energy costs/availability
- o Climate
- o Cultural amenities
- o Access to raw materials

Business is primarily interested in the willingness on the part of labor and state and local governments to make themselves attractive to new industry. They are not particularly interested in immutable factors such as climate or endowments of energy resources or other raw materials.

The only one of the six most important factors which would be difficult for a community to create might be "Access to Markets." However, I do not think this will prove a handicap for a centrally-located city like Youngstown. Alaska, on the other hand, will obviously never attract any manufacturers of beach umbrellas.

On the whole, I think that this community has ample opportunity to make itself more attractive to industry. Let's run down the list of the other most important attributes, and I will try to give examples of how communities in economic distress can lure new business.

Low labor costs are essential. Firms are unwilling to move to an area where the demand for labor is bumping against the ceiling of the labor supply and resulting in high wages. Certainly, Youngstown has just the opposite problem.

The next most important factor is state and local government regulatory practices. Here, I believe, is where you have the greatest opportunity to make your community attractive to expanding firms. The most important regulations according to our survey were zoning, building permits, building codes, and filing and inspection requirements. Regulations and costs of unemployment insurance and workmen's compensation are also important.

You would be surprised at how much money and time industry spends trying to obtain the proper permits for construction, gas lines, sewer systems, and new roads. Not only do these delays cost time and money, but they cause business to lose momentum.

Once the decision to expand is made, business cannot grow too quickly.

If you can restructure your regulations so that requests for permits, zoning variances, environmental impact statements and the like are simple and clearcut, and are issued promptly, then industry will be much more interested in moving here. It might be helpful to create a business-city ombudsman who is responsible for explaining and expediting industry permit and regulatory requests.

Labor skills and availability are another key factor in siting decisions. Businesses would prefer to have a pool of trained labor available rather than to start from scratch and train their own work forces. Just the availability of labor which is eager for an opportunity to work and prove itself is a plus. Again, Youngstown gets high marks here.

The next most important attribute is transportation. Top notch commuter transportation facilities for workers and high quality transportation facilities for supplies and finished products are a definite plus. The availability of adequate public transportation facilities to get workers back and forth from their homes to the workplace is essential. Equally essential are high quality roads and railroad facilities both to bring in raw materials and to take the finished products to market. I am not familiar with the conditions of the transportation facilities in Youngstown, but, again, this is an

area in which the community can make improvements if they are warranted.

The last of the six most important criteria is state and local government taxes. The use of tax breaks to attract new business has become a universal phenomenon. Communities must offer tax concessions just to be competitive. Localities which do not offer tax concessions put themselves at a serious disadvantage.

Aside from these six criteria, the survey respondents also agreed that state and local financial incentives were significant in their siting decisions. The most effective incentive was the availability of Industrial Development Bonds. There are some proposals afloat in the Congress to modify the tax exempt status of these issues. I would counsel the members of the JEC here today to look very carefully at the impact that such a change might have on regional development.

The second most effective financial incentive was property tax abatement. Certainly the long-term impacts of job creation should outweigh the negative short-term revenue considerations associated with property tax abatement. The availability of low interest loans was a close third in terms of effectiveness in attracting business.

High-tech firms also find the proximity to a university system significant in location choice. There are four major reasons for the significance of university systems in location

choice. They virtually guarantee a pool of college graduates. They provide a convenient mechanism for supplying additional training and education for employees. Faculty research activity may be helpful to the firm's research and development efforts. Last, universities provide reservoirs of technical information, extensive libraries, and cultural activities to the community.

In summary, there is plenty that a community can do to attract new industry. Youngstown does not have to shut down just because the steel mills are closing. If you are willing to make the effort, to change direction in some areas, there is no reason why Youngstown cannot become a boom town once again.

I would like to close with something that one of the members of the American Business Conference wrote at the end of his completed survey:

"The most important incentive is a good business climate -- a willingness on the part of state and local government to treat you as a partner and the source of something good -- not as an adversary and something to be tolerated. Everyone wants to be wanted."

Representative BROWN. Thank you, Mr. Albertine.
Mr. McGowan.

STATEMENT OF D. W. McGOWAN, PRESIDENT, DOLLAR SAVINGS & TRUST CO.

Mr. MCGOWAN. Representative Brown, I will attempt to cut this down, because of your time restraints, a little bit.

I am Mr. D. W. McGowan, president of the Dollar Savings & Trust Co., a commercial bank servicing the Mahoning, Trumbull, and Columbiana Counties. We have total assets in excess of one-half a billion dollars.

We, as most institutions, have used fully all of the tools we could find to finance industry that is expanding or wanting to locate in our area. These tools have included industrial revenue bonds, SBA participation and guarantees, EDA guarantees, and, in cooperation with local government, UDAG development grants. These programs all have limitations which create problems and in some cases limit their use.

Industrial revenue bonds, for example, are tax exempt issues which result in a lower interest rate for the borrower. However, the purchaser of these issues or the lender has limitations on new loans because of other tax-exempt issues held in current income tax liability. Because of the declining tax liability, many institutions have exhausted their availability of funds for this type of financing.

SBA participation and guarantees have been widely used by many institutions. The SBA guidelines and requirements that were established some time ago have not been updated to reflect current business industry status. For example, their maximum sales and employer regulations are much too low in today's economy. This has, therefore, eliminated many small businesses that should be eligible for assistance. It is important that SBA—it is important that the SBA program be continued to be funded and that these guidelines be strengthened so that more businesses may take advantage of it.

Up to this point, I have talked about things that most commercial bankers can deal with on a basis of providing finance for sound business expansion and development of new industry.

All institutions have been forced, however, by regulations of the Federal Government to pay higher and higher rates on their deposit accounts, in fact highest in our history. We have been forced to operate with a long list of certificates of deposit of every description.

Recently, a committee was established to address this problem. This committee, the Depository Institution Deregulation Committee, DIDC, was to phase out interest rate controls and let interest rates on deposit accounts seek their own level, as we do many other things in our economy. To date, however, only one type of account has been deregulated, and this happened on December 1, 1981, known as the IRA account.

This committee was also to do away with regulatory differences between commercial and other types of institutions. It would appear that the interest rate parity is where the committee is having its biggest problem.

If deposit rates were to seek their own level of return, there would not be a banker in the country that would want to jeopardize the stability of his institution by paying rates that were in excess of what he could expect to receive back on either loans or investments.

This, of course, will not happen overnight, but in a very short period of time the results would be felt.

The Mahoning Valley has a lot going for it. Sure, we have had some problems, but these are behind us now, and we are on our way to a recovery of the past problems. It will take time, but it can be done.

If your subcommittee, Congressman, would want to do something to help us out, I think there are several things that could be done: Continue funding SBA; continue funding EDA. At the same time, encourage SBA to revise its guidelines so that it takes in a greater segment of the business community on its guarantees.

A very important thing would be for the subcommittee to encourage the DID Committee to accomplish the purpose that it was intended, which may eventually reduce interest rates both on the cost side and on the deposit side.

I wish to thank the subcommittee for this opportunity.

[The prepared statement of Mr. McGowan follows:]

PREPARED STATEMENT OF D. W. MCGOWAN

Mr. Chairman, I am D. W. McGowan, President of The Dollar Savings and Trust Company, a commercial bank servicing the Mahoning, Trumbull, and Columbiana Counties. We have total assets in excess of half a billion dollars.

We, as most institutions, have used fully all of the tools we could find to finance industry that is expanding or wanted to locate in our area. These tools would include Industrial Revenue bonds, SBA participation and guarantees, EDA guarantees, and, in cooperation with local government, Urban Development Action grants. We have also participated with other financial institutions in a mortgage loan guarantee by the State of Ohio.

These programs all have limitations which create problems and in some cases limit their use.

Industrial Revenue bonds, for example, are tax-exempt issues which result in a lower interest rate for the borrower. However, the purchaser of these issues or lender has limitations on new loans because of other tax-exempt issues held and their current income tax liability. Because of the declining tax liability, many institutions have exhausted their availability of funds for this type of financing.

SBA participation and guarantees have been widely used by many institutions. The SBA guideline and requirements which were established some time ago have not been updated to reflect current business and industry status. For example, their maximum sales and employer regulations are much too low in today's economy. This has therefore eliminated many small businesses that should be eligible for assistance. It is important that the SBA, even with its restricted guidelines, continue to be funded.

Up to this point, I have talked about items that most commercial bankers can deal with on a basis of providing financing for sound business expansion and development of new industry.

But, we still must deal with a system that has created an interest rate structure that has both deposit and loan rates totally out of control. All institutions have been forced by regulations to pay the highest rates in our history for deposit accounts. We have been forced to operate with a long laundry list of Certificates of Deposit of every description.

Consider for a moment that a bank is the same as any retail establishment; there is only one slight difference: A bank only has two items for sale, money and service. A retail store has many items. In both cases, the retailer, the bank or store, must purchase the goods it is going to sell; then add to this cost his overhead and a fair return on his investment, and that is the sale price. If a retailer is forced by regulation to continually pay the top dollar for his merchandise, the consumer is going to continually pay top dollar also. This is what has happened to banks over the past several years; their merchandise--money--has been regulated at the top dollar cost, thereby forcing loan rates higher and higher.

Recently, a committee was established to address this very problem. This committee, the Depository Institution Deregulation Committee, DIDC, was to phase out interest rate controls and let interest rates on deposit accounts seek their own levels, as we do many other items in our economy. To date, only one type of account has been deregulated, and this only happened on December 1, 1981, and that is the IRA account.

This committee was also to do away with regulation differences between commercial and other types of institutions.

It would appear that an interest rate parity is where the committee is having its biggest problem.

I would submit that some of the problems in the financial institutions today, especially among the thrift institutions, have been aggravated by the committee's lack of action.

If deposit rates were to seek their own level of return, there would not be a banker in the country that would want to jeopardize the stability of his institution by paying rates in excess of what he could expect in return from loans or investments.

This, of course, would not happen overnight, but in a very short period of time the results would be felt.

The Mahoning Valley has a lot going for it; sure, we have had some problems, but these are behind us now, and we are on our way to recovering from past problems. It will take time, but it can and will be done.

If this committee wants to help, I have several suggestions:

1. Refer to us through the Mahoning Valley Economic Development Committee good potential industries for our area, industries that have a sound business plan, equity investment that they can make, and a desire to locate in an area that has a good potential labor force.
2. Continue funding SBA. At the same time, encourage the agency to expand its guidelines to cover a larger segment of the business community.
3. Encourage the DIDC Committee to accomplish the purpose that it was intended for, which may eventually reduce interest costs on both deposits and loans.

I wish to thank the Committee for this opportunity.

Representative BROWN. Mr. McGowan, thank you very much for your statement.

Mr. Lyden, as they say in commericals, the first few seconds get their attention, and the last few seconds sell the case. I am particularly happy to have you here today, I guess in light of what's going on in other parts of the world, because it's clear to all of us, I think, that the community succeeds or fails on the success or failure of the people in that community to find work and to perform it in a rewarding way. We are fortunate to be in a Democratic republic where organized labor unions, organized companies, organized families, organized communities do respond to the problems that we face, and do meet the economic, social and personal needs that all of us have. You speak more than for just the building trades, I hope, today in this concern, but for all the labor community in its interest in seeing this economic stream in the community restored. I appreciate your being here and look forward to your statement.

STATEMENT OF WILLIAM J. LYDEN, PRESIDENT, WESTERN RESERVE BUILDING TRADE COUNCIL

Mr. LYDEN. Thank you, Congressman. And after 3 hours and as the last speaker, I thought you'd be very glad to hear from me.

Organized labor in this valley is vitally interested in economic redevelopment. Really our interest began with the closing of the steel mills in 1977, and the loss of some 12,500 jobs in basic steel and the impact that's had on this community. But it's also our feeling that economic redevelopment, at best, is going to be limited as long as we have a massive transfer of American industry overseas. And if we look at the last 20 years and the impact that's had, starting with the loss of the shoe industry and it's effect on New England, and the loss of the clothing industry, the complete loss of the electronic industry in the sixties and the effect that's had on American workers, it's been very devastating.

Today, it's nearly impossible to buy any kind of a radio or a television set that was manufactured in the United States.

We in the Mahoning Valley looked at that kind of in an abstract light, because it didn't affect us directly, until the decision was made to transfer the steel industry out of the United States. When that happened, it had a very devastating effect. One of the concerns we have at the moment is that we're in the process of transferring the auto industry overseas.

Now, in all due respect to Mr. Tod and Mr. Roth, though, they're probably two of the best things that's happened to Youngstown, Ohio, with their efforts with Commuter Aircraft Corp. and Mahoning Steel Corp. But those efforts really provide a limited number of jobs and far offset by the multinational corporations whose decisions are made solely on the need of that corporation without any allegiance to the United States, or any other nation, as far as that's concerned.

Labor became involved in this community and I think it was demonstrated early on when there was a misguided attempt made with the Ecumenical Coalition to reopen the Campbell Works, that demonstrated a need and a concern by the people that work in this community to do something for their community.

Over the years, the AFL–CIO, the building trades, we have all tried to become involved with economic redevelopment committees that are operating in the Valley, MVEDC in particular, the CIC Corp. and those efforts in both Mahoning and Trumbull Counties. We've had representatives working with those committees and will continue to work with those committees.

Another attempt that was not successful but demonstrated the concern of the workers in the valley, was the attempts to buy the Ohio works. A further one that has been successful was the plumber's union in Youngstown, Ohio, investing $50,000 in CAC Corp., as Mr. Roth referred to, and I would like to expand on that a little bit.

Under the ERISA laws as they're interpreted today, that becomes a very risky decision on the part of management and labor trustees to make an investment in that kind of a corporation, and the personal liabilities that are involved for trustees. If the Government would like to help us and see further financial commitments by unions to area development corporations such as CIC, I think if ERISA was amended to make provisions for that, you would see a greater flow of union moneys into these kind of corporations, because they are good and they are needed.

Representative BROWN. I think the same problem—I didn't mean to interrupt you—the same problem applies also to insurance companies which ought to be encouraged to participate in this kind of venture.

Mr. LYDEN. We also recognize in the community the need to improve labor-management relations. We've worked with that through the Congressional Labor-Management Committee that was set up by the Congressman from our district and has been involved in many area labor disputes that has resulted in them being settled without interruptions of work or strikes.

Building trades in particular has recognized the need for a better relationship with particularly industrial customers, and in late 1979 sat down with Republic Steel and negotiated a project agreement that played a large part in their decision to renovate their existing facilities in Warren, Ohio. And that project agreement made concessions and work rules that I think was a major part of their decision to relocate and to rebuild in Warren. I think there's going to have to be more of that, and we're going to have to have a better relationship between management and labor if we're going to redevelop this community.

As far as the Government goes, there's a couple of things that I think are important, and I think we have to look at. One of them is, I think we have to find a way to make it unprofitable to transfer American industry in massive amounts overseas. I think it's necessary to continue or restore the UDAG grants. The Commuter Aircraft Corp., I doubt very much, would have representatives sitting in this room today if it wasn't for UDAG and what that has done for that corporation.

Also, the EDA has been very helpful and it's being phased out. I think it should be refunded to higher levels than exist today, because it has been a very effective tool in bringing industry at least into this valley.

Now, to get down to a couple of very partisan issues that I think we have to look at that are important. It's going to be necessary to

keep the labor force in this valley intact. I think the Government should be looking at the possibility of extending unemployment compensation benefits to maintain the labor force in this community for the day that, if it should come, that the community is really revitalized.

Youngstown has one thing going for it, though, that I think has been overlooked to some degree. It's a natural site located centrally between Chicago and New York. With the road system that's in place today, it has the potential to become a great transportation center. We're situated halfway between the lake and the river, with SR–11, a freeway running north and south, but this system has not been completed and has isolated the Youngstown-Warren area to some degree going east, and there's a vital need for the completion of what is known as the 7–11 connector and the Hubbard Expressway to bring the freeway system into complete play as far as this community goes. And those should be a couple of priorities that should be worked on to make it more attractive to industry to be able to get their products in and out of the community.

Representative Brown, I know you have a time problem, and I think I'll just stop there. Thank you.

Representative BROWN. Mr. Lyden, thank you very much.

Mr. McGowan, I'll go to you first, if I may. We, in the Joint Economic Committee, recommended some years ago through Mr. Albertine's leadership and others, the prospect that we should encourage increased savings in the United States. Different members have their methods of having that done, and a final package came down the pike. One of the methods we've been taking is the so-called all-saver certificate.

Do you believe that the all-saver certificate has been effective in increasing national savings? There has been some suggestion that the net increase in national savings has not been all that great in effect as a result of it. In effect, it merely shifted savings from one form to another. What's your experience on the local level?

Mr. MCGOWAN. Congressman, on the local level, we had more savings shifted from passbook to all-saver certificates than we had created new savings in our institution. And I think that you would find that in all the other institutions in town, this is about the same thing that happened. We found that there's a shift of savings from one to the other. It did not create any additional funds, as far as we were concerned, to any great extent.

Representative BROWN. Literally from low-interest-bearing accounts to high-interest-bearing accounts.

Mr. MCGOWAN. That's right.

Again, that's that long laundry list of certificates that we have to deal with. I realize that you're going to have some certificates, but you're not going to have this long list. If the deregulation committee would deregulate savings accounts so that savings accounts would find their own level of return to the depositor, and do away with the long list of certificates and everything else that we have, then you wouldn't have some of the problems that you have in some of the thrift institutions today and in some of the banks.

Representative BROWN. What would be the impact if we dropped

the taxation of income from savings or reduced it to a low level and let it start over again at the lowest tax level in the income tax field?

Mr. McGOWAN. You know, I don't really think that will have that much impact on also creating savings. We have a great number of people in Youngstown who realize and who are interested in having that passbook in their hands. We probably, on a percentage basis, have more passbook accounts than anywhere else because of the make-up of the citizens in Youngstown. And so therefore the fact that you would—that Congress would change the income tax, as far as the interest paid on savings, that would have no impact whatsoever.

Representative BROWN. You don't think they would figure out a way to shift their income from—or their resources from income to savings?

Mr. McGOWAN. No.

Representative BROWN. I think that's not the answer I wanted to get. I hope you'll think about it. Mr. Albertine knows that I've been an advocate of that for some time.

Now, do you want to give us an outlook for the inflation rate generally, the interest rate generally, what's likely to occur over the next few months or year?

Mr. McGOWAN. Well, I think by the end of this year, you will find that the interest rate will be up; prime rates are going to be back up again because of the fact that the Government is going to have to come back into the market and borrow funds to pay the interest on the Government debt. So, this is then now going to send the interest rates back up at the end of the year. However, in reverse I think in January you will find that the interest rate will start back down again. And I think that by midyear you could find an interest rate that would be tolerable, that we could live with—and to come up with a prediction as to that amount is pretty difficult, but I think that you could find that you would have a prime rate somewhere down around 15 percent by midyear.

Representative BROWN. Mr. Albertine, the question of diversification of local commerce, are high growth firms necessarily high technology firms. I hear people say what we need in an area like Youngstown, that's been hurt by a decline of local industry or the demise of it in some instances, is high tech firms. I think that high tech may be another word for high growth, and I'm inclined to think they are not the same. Would you agree with that or not?

Mr. ALBERTINE. Yes, sir.

Representative Brown, that's an excellent example of the excellent questions that you ask. That's very perceptive.

Representative BROWN. You are no longer on the committee; you are now gainfully employed in private practice. You don't have to do that. Go ahead.

Mr. ALBERTINE. That really is an excellent, excellent point. If you look at the membership of the American Business Conference, we actually have asymmetries with respect to high technology and energy. We have a few energy companies; and we have a few high technology companies, but actually most of our companies are in the manufacturing area and retail area and thrift institutions. I think of a company like Toys-R-Us, for example, which is clearly not a high technology business. Toys-R-Us has grown over the last

5 years 40 percent a year. I think of Dunkin' Donuts, which is clearly not a high technology business. They're growing at a rate of about 35 percent a year.

Representative BROWN. These are marketing firms?

Mr. ALBERTINE. Those are the marketing firms. We have a firm in Kansas City called Bulter Manufacturing, which is not a high technology company, also growing at about 25 percent a year.

So, the truth of the matter is that there are companies in America, actually there are 1,500 public companies in America that have doubled in size in the last 5 years, and most of those companies are not high technology or energy.

Representative BROWN. It also seems to me that there is a difference between a manufacturing company, which may be in the future more related to robotics and therefore not high job creation; and the firm that might be considered to be in the service area, like a life insurance central office where the records are kept by a lot of individuals who work a computer, that might, in fact, from the standpoint of a high employment rate in the community, want you to encourage the growth of those service firms over those nonindustrial firms that are highly labor intensive. Is that sensible?

Mr. ALBERTINE. I think that is sensible. I think you're exactly right. The figure you used before, I think you used the figure that small business and midsize business create about 87 percent of the jobs, new jobs, which came out of an MIT study I think is correct, and the reason for it is that they are so labor intensive.

Representative BROWN. In an area like Youngstown, would you look into labor intensive and growth industries, not necessarily high technology industries, or does this spectrum include high technology?

Mr. ALBERTINE. I would spread them as far and as wide as you possibly could. I would not limit them. Not being an expert on Youngstown, but I would not limit my search for firms in any particular section of the country.

We are at 85 members here seeking 100 members, and we haven't limited our search to any particular section.

Representative BROWN. Would you pick a future high growth industry, rapid growth industry or to you want to predict what some of them may be——

Mr. ALBERTINE. You mentioned one that's—as a matter of fact, I've heard the most discussion about it in the last couple of days, robotics. I think that's going to be a superhigh growth industry in the future in this country, and that is an industry, it seems to me, that would be perfect for the Upper Midwest, or the Northeast, particularly good for Midwest, this area and the Detriot area. I think the whole medical technology area will be a superhigh growth area in the future as well. And I think the areas that you discussed, the service areas and financial service areas are high growth areas.

Representative BROWN. Well now, in robotics, we have a conflict perhaps with the organized labor community.

Mr. Lyden, your reaction to robotics as competitive to labor, in fact, and the question of retraining, what that does to the labor community?

Mr. LYDEN. I'm really not familiar with it or its operation.

Representative BROWN. It's the development, literally, of robots to do the work in the factory, some of it——

Mr. LYDEN. All right.

Representative BROWN [continuing]. Is muscular——

Mr. LYDEN. I don't personally believe we can ever stop progress or try to limit through rules the use of modern tools and equipment, and I think on the short term it may be beneficial; but on the long term it's certainly self-defeating and I wouldn't be in favor of trying to limit that.

Representative BROWN. Mr. McGowan, you had a little criticism today of the financial institutions in the State of Ohio, or in the Youngstown area more specifically, or maybe it's just the criticism of a limited number of financial institutions, because I think Mr. Roth mentioned that it is necessary to spread the base of risk in the effort to get his loans picked up in the area. Do you want to make any comment on that? Are there State and Federal laws that inhibit financial institutions in the management of its investments that you think are either unwise or, though they may be wise in terms of requiring you to be conservative, do not serve the community situation such as exists in Youngstown, where you had a sharp decline in employment?

Mr. MCGOWAN. Well, first of all, I think you have three problems. The first problem is that in the case of Commuter Aircraft, because of the limitations set by both the State and Federal regulations on banks, and we happen to be a State chartered bank, and the controller of the currency on national banks, the $10 million was larger than any single institution in the Youngstown are a could make because of the limitations on their loans to any one person or any one corporation. So, it had to be spread in any way, shape or form to bring it within the laws that we're limited to as to amount we can loan to any one borrower.

Nevertheless, it was probably spread a little further then maybe to bring more in.

The second thing, the investment, you know, that you talk about, you really have two problems here. The problem of the investment on the bank's side, and the problem of the investment on the trust department's side. Now, let's talk about the bank's side. Again being a State chartered bank, the superintendent of banks controls what you can invest in; what funds you can invest, and what can be done. The comptroller of the currency also sets rules and regulations as to what can be invested in as far as exceess funds of the bank are concerned.

Over on the trust side, you know, we referred to the prudent man rule, you not only have the prudent man rule, but you have the instrument that you may be operating on over on the trust side that says you have to provide x number of income to the people in that trust or that you're limited by the instrument that created that trust in what you can do. So, it's a little difficult to broadside a thing and say financial institutions should invest in capital—or put a certain portion of their capital in, because there are many other rules and regulations that come into bearing on that, and I think it's a little difficult to broadside it.

Representative BROWN. In view of your testimony—I don't want to ask you to do more paperwork, but I wish you would give us some indication of what some of those limitations are. Just send them to us, if you can, by reference or by comment, rather than to do the digging out of the regulations themselves.

Mr. McGOWAN. Be glad to.

Representative BROWN. But go through the Federal, State, and local level, if the local level in this case is applicable.

I'm going to close with this question. I will ask the staff if they have any other questions that they think we ought to be asking on the record here now, or if any of you want to make any other statements, any of you in this group want to make any other statements. But I want to go back to a point that was discussed in one of the other panels, and that is the view Mr. Albertine mentioned, the high growth of some companies that are largely consumer supply companies or marketing companies.

Mr. McGowan, you're in the service business; the banking institutions, and we've already heard much about how important they are in this process; and Mr. Lyden, you represent an organization which is made up not only of producers but consumers, and this was with reference to industrial revenue bonds, but it seems to me it's also with reference to the whole concept or whole panoply of economic development, whether or not we ought to concentrate on industrial jobs or certain kinds of high labor intensive industries or whether we should also give consideration to the development of the infrastructure of services and retail outlets, the other things that make for the amenities of life in the community.

Where would you place that business of using, for instance, industrial revenue bonds for—I don't want to say starting another bank, because I think that prejudices your answer, perhaps, but other than industrial jobs or high labor intensive jobs?

Mr. McGOWAN. Congressman, let's say that we have probably been as active, or the bank has probably been as active as any bank in town in industrial revenue bonds. As long as an industrial revenue bond creates permanent jobs—now, I have a little problem when I start talking about, let's say McDonald's or something like this because they're all part-time jobs. I have problems with that. But if we were to bring a warehouse into town, which would be built by industrial revenue bonds, and that warehouse in town created—it was a distribution point, and it created 50 jobs, I think you've got to take a long look at those 50 jobs that are coming in. Just because they're not industry related, because you're not manufacturing something, I don't think you can turn your back on those 50 jobs, and we would not as far as industrial revenue bonds are concerned.

Representative BROWN. Your point being, though, that the 50 jobs are important, or is it the fact that you got a warehouse——

Mr. McGOWAN. The 50 jobs are important. The 50 jobs are important that are coming to town, because they have provided 50 jobs for people who did not have jobs before. And how do we know that somewhere down the road that warehouse will not be expanded into a regional warehouse and will then create 100 jobs?

Representative BROWN. Mr. Lyden.

Mr. LYDEN. In the community, Congressman, we haven't had the luxury of competition for industrial revenue bond financing, and if there were competition, I think the priority should be given to heavy industry as that's what industrial revenue bonds were originally designed for, as well as being labor intense operations. But in this community, we have been funding through industrial revenue bonds everything from McDonald's to manufacturing operations, and I

would be in favor of continuing that until such time as there was competition for that kind of financing and when there was, then I would be in favor of heavy industry.

Representative BROWN. I'm particularly sorry that Mr. Regula wasn't able to be here today. Mr. Regula is vice chairman for the Steel Caucus in the Congress and of course the steel industry's problems are perhaps basic or underlying in many of the things we have been discussing today. In that connection, it strikes me, and I'm going to make this comment because I've heard a little bit of a thread of something that while I think it's appropriate, I think it ought to be approached with some care. It seems to me that the steel industry and the steel unions have been very circumspect, or at least very careful about their approaches to terminating what has been historically free trade in this country. The thrust is mostly let's try to make it fair trade as opposed to free trade. And historically, Ohio has been a State wherein we have been either first, second, third, or currently fourth in the percentage of jobs that depend on foreign trade, and for us to tighten up to much on our foreign trade relationships may be dangerous.

We haven't had a chance to ask questions today. I would like to have the staff to prepare some questions for the whole panel on the issue of trade zones and assembly jobs in Ohio, work that would provide us the chance to do things here without the tariff. We've got some companies in the area that are affected inadvertently by limitations.

Mr. Lyden, I promised you the last word, and I want to make that comment. I don't want to necessarily stimulate your response to that, but I'd be happy to have you make any further comment you would like to make at the end.

Mr. Albertine, do you have any comment you would like to make?

[No response.]

Representative BROWN. Mr. McGowan.

[No response.]

Representative BROWN. Mr. Lyden.

Mr. LYDEN. Thank you very much for being here, Congressman.

Representative BROWN. I expected a stronger last word than that, Mr. Lyden.

Thank you very much, all of you, for participating. I think that we've got a pretty good record on some of the things that have been done in this area, and can be done in other areas. We hope that we can put it all together to influence our colleagues in Congress and other members of our committee.

The subcommittee stands adjourned.

[Whereupon, at 1:36 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[The following additional written questions and answers were subsequently supplied for the record:]

RESPONSE OF W. LAWRENCE WEEKS TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE BROWN

Question 1. Many analysts blame high wages and taxes as the main culprits behind the demise of the U.S. steel industry. Do you agree? Why or why not?

Answer. I disagree with the opinion that indicates the industry has suffered a "demise." The industry is not dead. There has been no demise. Admittedly, our hourly wages and payments for benefits are much higher than those of foreign steelmakers but we are still cost competitive in the U.S. market. This results from the fact that most European steelmakers use about twice as many manhours as we do to make a ton of steel. Japanese steelmakers use slightly fewer manhours than we do but their cost to sell steel in the United States, for such items as ocean freight, insurance, taxes and duties, offsets their labor cost advantage in our market.

Lower wages would help us to be more competitive but could not enable us to price steel low enough to regain the estimated 20 percent of our market being captured through illegal dumping by foreign steelmakers. This dumping by companies that are losing billions of dollars presents one of the major reasons for lower profits in our domestic industry. Past government control of steel prices and unreasonably heavy mandates for environmental spending also have contributed to our low profits.

Question 2. I understand that only 20 percent of the output of American steelmakers is produced by continuous casting techniques compared with a majority of output so produced in many other countries, notably Japan. Why are we so far behind in the use of this advanced technology?

Answer: It's not a matter of know-how or technology. It's a matter of money. Continuous casters are extremely costly. We are, for example, building a slab caster in Cleveland for about $120 million. We need casters in all of our steel districts. But despite our needs, we have had to allocate our capital first, for environmental control, energy conservation and assure our supplies of raw materials. The Japanese Government encouraged the building of continuous casters and, in so doing provided tremendous financial assistance to help the Japanese industry build a lot of casters even when the Japanese steel companies were not earning a profit.

Question 3. Do you see a future for robots in your modernization plans? Do you believe robots will displace a large number of steelworkers or do you believe they will ultimately create new jobs by making the American steel industry more competitive?

Answer. Largely because of automation, we can make more steel in 1982 with half of the production workers we employed 20 years ago. Automation will continue in the steel industry but robots, as we know them today, pose little threat to most steelworkers' jobs. This is because most industrial robots perform arc welding, assembly or other jobs more common to steel fabrication than to steel production. Robots may help our customers become more productive and thus should increase the domestic demand for steel and increase employment opportunities for our industry.

RESPONSE OF BERNHARD G. STAMM TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE BROWN

Question 1. In your opinion, will consolidated block grants provide state governments, like Ohio, with sufficient flexibility and resources to reshape their economic environment?

Answer. Consolidation of block grants will help Ohio reshape her economic environment, but it certainly will not solve the problem. Excessive restrictions set by Congress on the block grants prohibit the states from having the great flexibility intended by the administration. Federal regulations are not as broad as the states had hoped. States are looking forward to the opportunity and challenge offered by the block grants, but still have reservations due to the tight restrictions. Time will tell.

Question 2. Ohio's businesses and institutions have not had spectacular success in competing for the over $122 billion Federal procurement market. In your opinion, why are Ohio's businesses unable or unwilling to look to the Federal Government as a market for their products and services?

Answer. The Maybank Amendment to the Defense Appropriations Bill has severely restricted Ohio businesses from participating in the procurement network of the Defense Department. In this time of continuing inflation and high unemployment, the labor surplus area program provides the federal government with an effective tool to stimulate private sector jobs in areas of concentrated unemployment.

If only ten percent of the Pentagon purchasing was targeted to areas of labor surplus, that $7 billion could create 200,000 factory jobs in old plants now being abandoned. If one million inner city residents were working and off the welfare roles, there would be a $4.8 billion savings annually to taxpayers and would generate an estimated $6 billion per year in federal, state and local taxes.

In Ohio we were the only state to develop an outreach program for the Maybank program. We sent letters to 5,000 Ohio businesses telling them of the opportunities available to them in doing business with the Defense Department. We followed up with phone calls and personal visits by all the Chambers of Commerce in the state, coordinated by the Ohio Chamber of Commerce. As a result of this effort, the City of Cleveland, Cuyahoga County and the Greater Cleveland Growth Association went together to cooperatively provide a similar outreach effort for the Cleveland area.

We have found the process to be laborious, time consuming and elusive. Other cities in other states that have tried similar efforts have told us that it takes a minimum of two years before you see any results of your efforts. Businesses are leary of the red tape involved and many small companies cannot afford the time it takes to bid on a project.

Question 3. High technology industries have clustered near university centers in several states—Massachusetts, North Carolina and California, for example. What are we doing in Ohio to encourage similar development?

Answer. In 1981 we recognized the futility of wooing the companies that had been founded and mushroomed in a decade in the "Silicon Valley" and on Circle 128. In spite of their problems, and there were many, these firms can supply world markets and they will not move.

The Governor and the Department of Economic and Community Development decided to identify Ohio's potential for developing high technology and strive to produce new products for a space age market rather than compete for existing products in a mature, perhaps saturated market.

Our universities may not have the prestige of M. I. T. or Cal Tech, but many have scientific programs that enjoy national recognition. These schools, Case Western, Ohio State University and Cincinnati, three of many, can offer programs in any discipline for which there is a need. Educators are members of the Governor's Task Force.

To determine Ohio's goal for the 1980's the Governor established a Task Force consisting of captains of industry and educators who agreed to meet periodically, identify our assets and potential for exploiting those assets, to establish Ohio as a center for high technology. These forces could serve as a catalyst for companies locating nearby to supply their needs and for new businesses that would use their products.

We are embarking on a campaign to publicize the wealth of intelligence available in scientific fields. Battelle, Chemical Abstracts, Goodyear Aerospace and Lewis Research Center are well known, but others such as Structural Dynamics Research Corporation and Dayton Research Park are relatively unknown. This will be corrected by an ad campaign in High Tech publications and other worthwhile media.

A recently enacted program for which we have high hopes is Senate Bill 313. This legislation—known as "The Liquor Profits Bill"—provides us with a flexible tool that can be of inestimable value in providing needed inducements to labor-intensive industries to locate in declining, high unemployment areas. We are currently in the process of gearing up to handle the expected applications to use this latest form of financing. We should have an accurate appraisal of this program by the second quarter of 1982.

What we are doing is evaluating Ohio's potential for developing and marketing high technology. Our future may be in the end product, software, or service industries. We are committed to providing job opportunities to Ohioans and we think this is the direction to take with every reason to believe we will be sucessful.

RESPONSE OF DAVID L. MCBRIDE TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE BROWN

Question 1. Many experts are saying that Ohio's university system is an underutilized resource in economic development efforts such as in Youngstown. Do you agree? Why or why not?

Answer. I agree that Youngstown State University (YSU) is not utilized as fully as it could be by its surrounding business community. In mid-1981 the Cushwa Center polled the managers of 30 mid-sized companies in the Youngstown area to determine their needs for business management and technical assistance. We were quite surprised to discover that it rarely occurred to these managers to seek out the expertise at the University on behalf of their companies. Apparently they all acknowledged the University's role as an educational institution, but had not thought of it as a resource for solving business and technical problems. This may say something about the lack of awareness of these managers regarding the development of the University over the past decade. It may also say something about the need for better promotional effort on the part of the University to acquaint the public with its available services.

During the period immediately following the closing of Youngstown Sheet and Tube's Campbell Works, a group of citizens banded together in an Ecumenical Coalition to attempt to restart that steel-making facility. It was a disappointment to many that the group sought technical assistance in this effort from professional consulting firms in Boston, Washington and New York rather than from the technical expertise closer at hand at YSU. The effort may not have been any more successful, but at least the funds spent for technical assistance would have benefited the Youngstown area instead of going to individuals in other cities who may not have had the same depth of interest and concern. Indeed, the technical study might have been less expensive if handled by local experts, and it might have reached a different conclusion regarding the feasibility of reopening the Campbell Works.

Question 2. From your perspective, how do you think we should alter public policy to enhance the attraction of high technology oriented industry to areas like Youngstown?

Answer. It is not public policy, but rather the ready availability of appropriate sites, materials, manpower, and money which encourages industry to locate in a particular geographic area. If public policy needs to be altered, this should be done in a way which encourages community and industry investment in these resources. It appears that so-called "public policies" often have strings attached that work to inhibit community support of viable economic or industrial development projects. Witness, for example, the conditions imposed by HUD which denied Youngstown eligibility for UDAG funds to support a new industry, Commuter Aircraft, because it would not comply with HUD's demands for establishment of a locally unpopular housing project.

As a focal point for attracting high technology to the Youngstown area, I favor the creation of Research and Development Centers, especially those that could be affiliated in an appropriate way with Youngstown State University. The establishment of such centers has been instrumental in the growth of high-technology oriented industry in numerous other American cities, and I am sure a similar effort would prove productive in Youngstown as well. I understand there is a proposal in the current Ohio capital appropriations budgets for such a center to be constructed in Youngstown with state funds. If construction is approved, and if funds are found to support it, this center could be the beginning if a change in direction for the Youngstown area. But the building of such centers need not necessarily come from public funds. Public policy should encourage the establishment of such centers with private funds as well.

Question 3. You state that a great deal of the number of firms engaged in fabricating metal products were small companies, enploying 25 or fewer workers. This is reconfirmation of the fact that small business plays a big part of economic development in many areas. Is all of your work at the Cushwa Center involved with small business? On average, how many employees do these firms have? Do they tend to be blue collar or white collar? Union or non-union?

Answer. To the present time, the work of the Cushwa Center has been directed toward individual enterpreneurships and small companies which do not have the in-house resources to do financial analysis, business planning, operations research, product research and development. These firms range from sole proprietorships in which the owner is the only full-time employee to small closely-held corporations employing up to 100 persons. The terms "blue-collar" or "white-collar" and "union" or "non-union" may be inappropriate to describe these firms. The Center has not attempted to characterize them that way, preferring rather to focus on the factors which most directly affect their economic and productive viability. Whether union or not, whether blue-collar or white-collar, the employees and and owners of the firms we have assisted have one common interest—survival of the company.

Question 4. In your work with small businesses, have you come up against the very great problem of regulatory compliance costs that these businesses face? Do you offer help to them in trying to comply with their regulatory problems?

Answer. In working with local enterpreneuers and business managers, the Center has not encountered tangible evidence of a cost impact of regulatory compliance on their businesses. It may be that other problems are more pressing to these businesses or that they are too small for the regulations to have any major cost effect. In any case, the Center is not currently equipped or staffed to assist companies in compliance with regulatory problems except in a very general way.

Question 5. I want to assure you that we appreciate and will honor the confidentiality agreement that you have with your clients. In your statement it is somewhat difficult to ascertain if the Cushwa Center has been involved with many high-technology firms. Have you had much involvement with these firms? What types of services have you provided them at the Cushwa Center? Also, are you attempting to find new ways that the university, as a whole, could be used to encourage these high-technology firms?

Answer. The Cushwa Center has been involved with only a few firms that might be classed as "high-technology". Most of our assistance to them has been in the preparation of pro forma business plans to determine the likely capital and operating costs of their proposed ventures. In two cases we also used appropriate members of the University faculty to evaluate certain technical aspects of the proposed ventures. While we are not currently equipped to provide much more than this, we have proposed a plan which would enhance the Center's business planning capability and establish a capability for assisting local firms with marketing surveys and analyses, identification of new products, implementation of new technology, and solutions to manufacturing problems concerning the productive use of materials and labor. This proposal, which is currently being studied by University officials, ask for a modest increase in the Center's staff, but relies heavily on the use of University faculty to provide the assistance needed by local firms.

Question 6. You stated that it is your hope—and I assume the hope of many others—that the businesses that have closed down operations will be replaced by other businesses better able to stand the ramifications of changes in the economy. I understand this is a difficult question, but is there one type of industry that you feel would provide this long-run stability? Obviously, after a new industry comes into existence and begins to flourish, many medium-sized and small businesses tend to grow out of this prosperous economic condition. What types of industries do you believe would have a particularly strong "spin-off" effect?

Answer. I am not prepared at the present time to provide a definitive answer to this question. It is certainly one which needs answering. In consort with Dr. Terry Buss, Director of YSU's Urban Studies Center, we are currently circulating to the local Private Industry Councils, and other economic development groups, a research proposal which is directed toward providing an answer. If appropriate funding is obtained, we would expect to have a definitive answer later this year.

Based on past history, it seems logical to expect the metals industry—at least fabricating, if not melting—to continue to play a significant role in the Valley's economic base. There is also a strong inclination toward assembly operations—e.g., Lordstown plant of General Motors, and the forthcoming Commuter Aircraft Corporation. One might expect a "spin-off" of supporting companies to provide metal forming and machining, machine parts, plastic and fabric components, and the like. One of the goals of our proposed research is to identify the types of companies which might have a strong competitive advantage if they were located in the Mahoning Valley, and to identify the local resources needed to establish them.

Question. 7. Ohio's businesses and institutions have not had spectacular success in competing for the over $122 billion Federal procurement market. In your opinion, why are Ohio's businesses unable or unwilling to look to the Federal Government as a market for their products and services?

Answer. I have no substantive information which could provide an answer to this question.

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